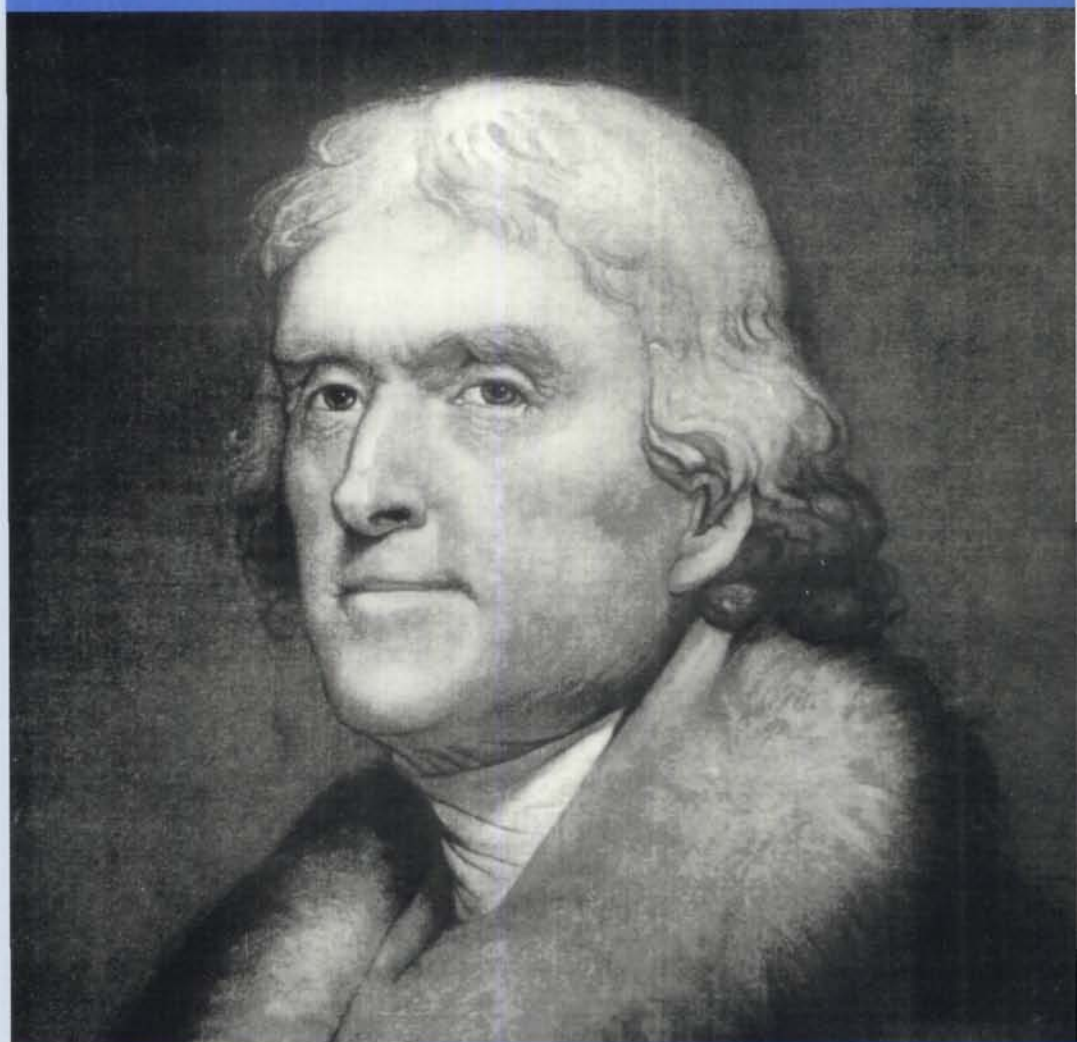


The

INDEPENDENT REVIEW

A Journal of Political Economy



Volume 1

Number 1

Spring 1996



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Preface

Since its inception in 1986, The Independent Institute has become well-respected in the worlds of academia, policy research, and public debate for its commitment to nonpoliticized scholarly excellence. Our program has enjoyed the benefits of working with many superb scholars, producing highly acclaimed books and other studies offering seminal insights into the workings of the political economy. However, the Institute has lacked a means to carry on a regular dialogue with the many people seriously interested in an informed public debate and the scholarship that must undergird such debate. With the publication of *The Independent Review*, we seek to fill that void.

In recent decades, the established sanctity of “statecraft” in general, and political institutions in particular, has increasingly been met with skepticism, cynicism, and distaste. Since the Watergate scandal and the Vietnam War, politics has taken an increasingly antipolitical turn with subsequent elections producing a more impatient electorate determined to “throw the rascals out.” Among academics, many of the shibboleths that long dominated economics, history, political science, philosophy and law—and too often served to justify the regality of government programs in the twentieth century—have been either abandoned or come to be viewed with suspicion.

American political culture no longer simply concurs with the powers or policies that have prevailed. What is “liberal” or “conservative” is no longer so clear, and new paradigms are beginning to appear on the horizon. Of course, in this new era of rethinking, bouts of confusion, apprehension, and conflict must be expected. Those who have benefited from existing policies,

and the discredited ideas on which they have been based, will no doubt disparage the independent thinkers who now challenge the modern Leviathan state and seek to restore the vitality of civil society. At the same time, maverick thinkers may simply echo Luddite or other fallacies hostile to honest intellectual endeavor, individual liberty, and the rule of law, convinced that they have discovered the hidden path to Shangri-La.

In these circumstances and at the tenth anniversary of The Independent Institute, it is most fitting that we launch our new journal, *The Independent Review*, as a vehicle for independent scholarship produced by independent minds. In tracing the dynamics of political economy and, yes, challenging government failures, we remain ever mindful of the intellectual and cultural heritage of mankind. We seek not to fashion some sort of “new” view but, instead, to honor the lessons of history while restoring independent inquiry to center stage as the essential activity for enhancing our understanding of society—past, present and future.

We intend to make *The Independent Review* a unique and far-reaching quarterly journal of political economy, dedicated to scholarly and literary excellence. Under the able editorship of Robert Higgs and the outstanding scholars who serve on the editorial and advisory boards, this journal may very well pioneer future debate.

DAVID J. THEROUX
President
The Independent Institute

Editor's Welcome



Anyone launching a new quarterly journal in 1996 owes the world an explanation. Obviously, readers face no shortage of periodicals, and some of the existing ones are very good. Nonetheless, not every valuable niche has been filled; hence *The Independent Review* (*TIR*).

TIR will present articles, special features, and reviews that deal with political economy, broadly construed. Writing that would interest only economists or only philosophers or only historians—indeed work that would interest only the practitioners of any academically defined scientific or humanistic specialty—will not appear in this journal. Rather, I intend to feature writing that crosses the boundaries of a variety of disciplines, including all the social sciences, philosophy, history, law, and related fields. Although it will serve scholars and comply with strict scholarly standards, *The Independent Review* will differ from such journals as *The American Economic Review* and *The American Political Science Review*. The main purpose here is not to develop a particular discipline but to advance the reader's understanding of the multifaceted reality to which the term "political economy" refers.

Highly formal and technically challenging work will not appear in *TIR*. Heavily mathematical forms of exposition have become *de rigueur* in economics and increasingly in political science. Other fields, such as philosophy, have their own ways of excluding strangers from the conversation. Good arguments can be made for these expositional conventions. But whatever the merits of esoteric forms of communication in the various disciplines, my aims as editor dictate that the common language of this journal, as a rule, must be English. I intend to reject the work of writers who cannot express their ideas clearly. Those who write with vigor, wit, and flair will be received with open arms.

Because *The Independent Review* will eschew arcane or ponderous writing, it should appeal to students as well as teachers, generalists as well as specialists, lay persons as well as professionals. Political economy embraces a great diversity of topics; *TIR*'s intended audience is equally diverse. Although political economy comprises fundamentally important issues, the analysis, interpretation, and evaluation of these issues need not be hard to swallow. When Paul Samuelson published his *Foundations of Economic Analysis* in 1947, he made his epigraph Willard Gibbs's declaration that "mathematics is a language." Fifty years later, we have good reason to insist that English is a language, too.

Fortunately, for many purposes verbal expression is sufficient, and sometimes it is superior, as it accommodates a degree of nuance unachievable by alternative modes of expression. But certain types of analysis require more than words. Authors who make appropriate use of mathematical or statistical analysis—as opposed to just showing off—will find these pages accessible to them. For empirical articles, I shall give preference to expositions that display data or relations in an arresting visual manner. Sometimes a numerical table is essential, and a well-constructed graph goes a long way.

Although the style of exposition in *The Independent Review* will be simpler than that in many professional journals, readers will find that the articles, features, and reviews represent scholarship of the highest caliber. *TIR* is fortunate to have outstanding scholars serving as associate editors, contributing editors, and members of the board of advisors. In addition, excellent outside referees assist me in evaluating the papers submitted for publication, so first the authors and ultimately the readers receive the benefit of top-notch peer review.

Finally, something must be said about ideology. Political economy deals with issues that are infused with ideological presuppositions and implications—liberty, tyranny, democracy, collectivism, taxation, regulation, public policies of all sorts. For many journals, a paper's ideological correctness is a *sine qua non* for acceptance. Even professional journals espousing "positive" or "value-free" analysis commonly fall short of their aspirations, as ideological assumptions creep unannounced into their pages.

In America during much of the twentieth century the ideology contained in works of political economy—often only between the lines—increasingly pulled the subject away from its moorings in the ideas of such classic figures as Montesquieu, Smith, Jefferson, Madison, and Tocqueville. More recently, however, political economists have begun to rediscover their lost heritage. Writers such as the Nobelists Friedrich Hayek and James Buchanan have inspired much important new research. Meanwhile, outside academia, developments such as the worldwide movement to privatize state enterprises and the abandonment of central planning in the socialist countries have given new urgency to the analysis of voluntary cooperation, free markets, and limited, constitutional government. *The Independent Review* will provide

an outlet for writers engaged in the development and extension of this classic tradition. However, I do not plan to exclude papers written from alternative perspectives. Indeed, I hope to feature illuminating debates. In any event, many questions remain open; no one has all the answers. Normative as well as positive analyses will find a place here, and no attempt will be made to avoid the hard questions. On the contrary.

To the extent that I succeed in realizing our hopes for this journal, it will be filled with a broad range of excellent scholarship in an exceptionally interesting and widely appealing form. To readers who are tired of narrowly specialized, technically inaccessible, and often boring journals, to those who are hungry for something expositively tastier yet still intellectually meaty, I welcome you to the first issue of what I expect to be an ongoing feast.

Bon appétit!

ROBERT HIGGS
Research Director
The Independent Institute

Author Information

The INDEPENDENT REVIEW is published four times annually by The Independent Institute, a nonprofit, nonpartisan, scholarly research and educational organization that sponsors studies of the political economy of critical public issues. The editors invite submission of articles that deal with important issues in political economy. Authors may adopt the approaches of economics or other social sciences, history, law, or political philosophy. Both positive and normative analyses will be considered. Because *The INDEPENDENT REVIEW* seeks a broad audience, papers should be interesting and comprehensible beyond narrow disciplinary bounds.

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What Is Living and What Is Dead in Classical Liberalism?

— ♦ —

CHARLES K. ROWLEY

The momentous upheaval in Eastern Europe in 1989, followed by the complete disintegration of the USSR, did not usher in the “end of history” as claimed by overly enthusiastic Western commentators such as Fukuyama (1992) in the first wave of euphoria over the collapse of Marxist-Leninist dogma. However, as James Buchanan (1991) noted, it did end a vision of socioeconomic political reality based on collectivist-socialist ideas. It is now possible to analyze the complexities of social interaction among individuals without regard to the collectivist-socialist shadow that has been cast over such discussions for the better part of the twentieth century.

Especially important, in such circumstances, is that those who place a high value on individual freedom do not become complacent about their cause. On the one hand, the collapse of the Soviet Empire has provided unequivocal evidence that socialism cannot create wealth and cannot tolerate liberty. If the proposition is accepted that ideas have consequences, then the failure of the socialist idea should open up opportunities for halting and reversing the drift toward collectivization in advanced Western democracies. On the other hand, false complacency among pro-market scholars and advocates, based on unfounded notions that the philosophic and economic debate has ended in a decisive victory, may lower the vigilance that is continuously necessary to protect liberty against the forces of mercantilism.

As Buchanan (1991) has observed, the demise of socialism has discred-

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ited, perhaps forever, the appeal of “politics in the large” in the sense of the centrally planned and controlled economy in which individuals must seek their own realization as integral components of a socialist community. However, the demise of socialism does not seem to have discredited the appeal of “politics in the small” in the sense of piece-by-piece interference with market processes. The electorate in its majority has not come to any robust acceptance of the notion that if politicization does not work when applied over all markets, then it will not work in the case of particular markets, taken one at a time.

In large part, this hesitancy is explained by pressures of public choice. In not inconsiderable measure, however, it is reinforced by a failure of conviction or of continuing resolve among classical liberal scholars, including those who once were the intellectual giants of the classical liberal movement.

In Retreat from Utopia

In 1974, Robert Nozick challenged the most commonly held political and social positions of that time—liberal democrat, socialist, and conservative—by reasserting that individuals have rights and that there are things no person or group may do to them without violating their rights. So strong and far-reaching are these rights that they raise the question of what, if anything, the state and its officials may do.

Nozick’s main conclusions were that a minimal state, limited to the narrow functions of protection against force, theft, and fraud, and concerned with the enforcement of contracts, is justified; that a more extensive state must violate individuals’ rights to do certain things, and is unjustified; and that the minimal state is *inspiring* as well as right. Two implications are that the state may not use its coercive apparatus to (1) require some citizens to aid others or (2) prohibit individuals from certain activities for their own good or protection.

In 1989, Nozick categorically repudiated this concept of utopia, denied the relevance of philosophy for matters of substantive policy, and opted for the “zigzag of politics” rather than for the principled position of his earlier political philosophy. This retreat from classical liberalism was driven by a judgment that any focus on individual rights detracts from communitarian impulses and fails to embrace humane considerations and joint cooperative activities: “There are some things we choose to do together through government in solemn marking of our human solidarity, served by the fact that we do them together in this official fashion and often also by the content of the action itself” (287).

In this view, democracy is a mechanism through which individuals seek symbolic self-expression as a means of intensifying the reality of social solidarity and humane concern for others. In contrast, the libertarian view, by looking exclusively at the *purpose* of government, fails to take account of the *meaning* of government.

More than this, joint political action does not merely express our ties of concern; it constitutes a relational tie itself. So important are these relational ties that individuals who are not included in such ties should be required to pay taxes to support the programs that such ties involve. If a democratic majority desires jointly and symbolically to express its most solemn ties of concern and solidarity, the minority who prefers differently will have to participate sufficiently to be spoken for.

Such bonds of concern, according to Nozick, may imply limitations on liberty concerning particular kinds of human action; for example, justification of antidiscrimination laws in employment, public accommodations rental, or sale of dwelling units, and so on. They may lead even to justified limits on the freedom of speech and assembly. No general principle draws the line on such limitations on liberty. All decisions depend on the extent and range of the general population's actual feelings of solidarity and concern, and their need to give these feelings symbolic political expression.

Let us suppose there are multiple competing values that can be fostered, encouraged, and realized in the political realm. Further suppose it impossible to include all such goals in some consistent manner. Despite this conflict, argues Nozick, many goals that cannot be pursued together at the same time can be reconciled over time by pursuing one for some years, then another some years later. This explains why the electorate zigzags between political parties over time. Given a choice between permanently institutionalizing the particular content of any group of political principles thus far articulated and the zigzag process of democratic politics, Nozick is clear which direction he will take: "I'll vote for the zigzag every time" (Nozick 1989, 296).

In the Bunkers of Civil Society

John Gray's early writings on the philosophies of John Stuart Mill, Friedrich von Hayek, and Isaiah Berlin placed him forthrightly in the camp of classical liberal political philosophy. Surely, his writings never embraced the concept of the minimal or night-watchman state in the sense of Robert Nozick (1974). Yet throughout the period of 1976 to 1988, he embraced the notion that individual liberty represents a worthwhile ethical goal and that classical liberalism can be justified by reference to extant political philosophy.

In his 1976 paper on John Stuart Mill, Gray acknowledges that "[i]f there is a consensus on the value of Mill's political writings, it is that we may turn to them for the sort of moral uplift that sustains the liberal hope" (Gray 1989a, 1). He continues by noting that "Mill's writings contain an argument for an open society which has not yet been decisively refuted, and of which every generation needs reminding" (1). He endorses the central argument of Mill's *On Liberty*, "the claim that a liberal society is the only kind of society in which men confident of their own manifold possibilities but critical of their own powers and of each other, men who aspire to the

status of autonomous agents and who cherish their own individuality, will consent to live" (2).

Following a detailed review of Mill's utilitarian-driven political philosophy, Gray concludes that "[t]hough we must not expect from Mill's writings a blueprint for the achievement of a liberal society in a world in many ways very different from Mill's — radicals will be unreasonable if they neglect Mill's thought on some of the principal dilemmas that perplex us today" (Gray 1989a, 8).

In his 1980 paper on negative and positive liberty, Gray extols the analysis of Isaiah Berlin, whose paper "Two Concepts of Liberty" (1968) argues that the concept of negative freedom (the absence of coercion of one individual by another) is to be favored over all other concepts of freedom. Gray endorses Berlin's doctrine of value pluralism and his preference for a liberal society in which a wide diversity of ends is promoted.

In his 1981 essay on Friedrich von Hayek, Gray criticizes Hayek for blurring the boundaries of individual freedom and for assimilating it to other goods such as the rule of law and social stability. For this reason, Gray contends, "Hayek's account of law and liberty runs the risk of losing the peculiar importance of individual freedom conceived as a virtue of political order" (Gray 1989a, 97). Gray concludes that a conception of individual rights can be defended only as abstraction from political experience.

Yet, in 1989, Gray pronounced that his twelve-year project to define classical liberalism and to give it a foundation had been a failure, and he condemned classical liberal ideology as an impossibility. The various projects of grounding liberalism as a set of universal principles in a comprehensive moral theory—rights-based, utilitarian, contractarian, or otherwise—had all turned out to be inadequate and essentially incoherent.

This failure was not to be lamented, he argued, "since liberal political philosophy expresses a conception of the task and limits of theorizing that is hubristic and defective" (Gray 1989a, vii). He also described the ruin of classical liberal political philosophy as "only the most spectacular instance of the debacle of the received tradition, modern as much as classical, of philosophy as a discipline" (vii).

In his 1993 book *Post-liberalism*, Gray pokes around among the rubble of classical liberal philosophy to determine what, if anything, is left. He concludes that none of the four constitutive elements of doctrinal liberalism—universalism, individualism, egalitarianism, and meliorism (or human flourishing)—can survive the ordeal by value pluralism, and that liberalism, as a political philosophy, therefore is dead. What is living in liberalism, he maintains, is the historic inheritance of a civil society whose institutions protect liberty and permit civil peace. He reasons that such a civil society is the best one for all contemporary cultures, because they harbor a diversity of incommensurable conceptions of the good.

If civil society is all that is left—the living kernel—of classical liberalism, what then is its nature? Gray's response to this question is expansive. If there

is an ultimate diversity of forms of human flourishing, embodied in ways of life only some of which can be accommodated within a classical regime, then classical liberal orders have no general superiority over orders that are not classically liberal. In short, value pluralism dictates pluralism in political regimes and undermines the claim that only classically liberal regimes are fully legitimate.

A civil society, for John Gray, is one tolerant of the diversity of views, religious and political, that it contains, one in which the state does not seek to impose on all any comprehensive doctrine. Thus Calvin's Geneva was not a civil society, and none of the twentieth-century species of totalitarianism encompassed civil societies.

A second feature of civil society is that both government and its subjects are restrained in their conduct by a rule of law. A state in which the will of the ruler is the law, and for whom, therefore, all things are permissible, cannot contain or shelter a civil society. One implication of this construct is that civil society presupposes a government that is limited, not omnipotent.

A third feature of civil society is the institution of private or several property. Societies in which property is vested in tribes, or in which most assets are owned or controlled by governments, cannot be civil societies.

In Gray's view, civil societies thus defined need not have the political and economic institutions of liberal democracy; in historical terms, most do not. Nor need they contain the moral culture of individualism. In his view, Czarist Russia was a civil society for the last fifty years of its existence, as was Bismarckian Prussia. According to this model, the authoritarian societies of modern East Asia—South Korea, Taiwan, and Hong Kong—are also all civil societies.

Nor, for John Gray, is civil society to be identified with market capitalism. Several or private property may come in a variety of forms, each of them artifacts of law. The institution of the capitalist corporation is only one species of the private or several property institution on which a civil society rests.

Considered in light of these ideas, Russia will go badly astray if it seeks to replicate the Western form of capitalism. What is needed in post-1991 Russia is a radical deconcentration of economic activity to municipal, village, and cooperative levels in which the Russian tradition of cooperation can be revived. In Japan, also, Westernization would only involve injury to valuable social systems, with few, if any, corresponding advantages.

Evidently, civil societies come in many varieties. They may be democratic or authoritarian, capitalist or noncapitalist, individualist or nonindividualist in nature. What they have in common is the practice of liberty—as evidenced in the rule of law and private, or several, property—and the civil liberties of voluntary association, conscience, travel, and expression. They need not shelter democratic freedom.

This broad tent is put forward as the living kernel of classical liberalism—all that remains from several centuries of classical liberal

philosophy. In my view, it is not a living kernel but an empty shell. In the remainder of this paper, I search for an explanation of what has prompted leading scholars to abandon classical liberal philosophy, and I attempt to set the record straight by outlining a consistent and coherent Lockean justification for the minimal state.

Anarchy-versus-Order: The Political Philosophy of Thomas Hobbes

Two great dichotomies dominate the political thought of all times: oppression-versus-freedom, and anarchy-versus-order (Bobbio 1993, 29). Thomas Hobbes (1588–1679) belongs in the company of those whose political thought has been inspired by the latter dichotomy: the ideal he defends is not liberty against oppression, but order against anarchy. Hobbes is obsessed with the idea of the dissolution of authority, the disorder that results from the freedom to disagree about what is just and what is unjust, and with the disintegration of the unity of power, which he views as inevitable once individuals begin to contend that power must be limited. The ultimate goal that motivates individuals in his moral philosophy is pursuit of peace and not of liberty.

Hobbes's fundamental obsession is the threat of anarchy, which he considers to be the return of mankind to the state of nature. The evil he fears most is not oppression, which derives from the excess of power, but insecurity, which derives from the lack of power. Hobbes feels called upon to erect a philosophical system as “the supreme and insuperable defense against insecurity” (Bobbio 1993, 29)—insecurity, first of all, about one's life; second, about material goods; and last, about that small or great liberty an individual may enjoy while living in society.

Hobbes's three main political works, *The Elements of Law Natural and Politic* (1650), *De Cive* (1651), and *Leviathan* (1651), provide descriptions of the state of nature that substantively are identical and meant to play the same role. The principal objective condition is that human beings, de facto, are equal. Being equal by nature, they are capable of inflicting the greatest of evils on one another: death. To this he adds the second objective condition, scarcity of goods, which causes individuals each to desire the same thing. This combination of equality and relative scarcity generates a permanent state of reciprocal lack of trust, which induces all to prepare for war, and to make war if necessary, rather than to seek peace.

One of the objective conditions emphasized in *Elements* and *De Cive* is the *ius de omnia*, the right to all things nature gives to anyone living outside civil society. De facto equality, together with the scarcity of resources and the right to all things, inevitably generates a situation of merciless competition, which always threatens to turn into a violent struggle. This situation is made worse by the fact that nature has placed in this predicament individuals dominated by passions that incline them to unsociability.

Hobbes does not have a flattering opinion of his fellow human beings. While discussing freedom and necessity with Bishop Bramhall, Hobbes asserts that “human beings resist truth because they covet riches and privilege; they crave sensual pleasures, they cannot bear to mediate, and they mindlessly embrace erroneous principles” (Bobbio 1993, 40). In *Leviathan* he divides human beings into those devoted to covetousness and those devoted to sloth, then comments that these “two sorts of man take up the greatest part of mankind” (Hobbes 1946, chap. 30, para. 224). Furthermore, a description of the state of nature in *Elements* stresses vainglory as the passion “which deriveth from the imagination of our *own power* above the power of him that contendeth with us” (Hobbes 1928, I,9,1,28).

In *Leviathan*, Hobbes links together three causes of conflict: competition, which makes individuals fight for gain; diffidence, which makes them fight for security; and vainglory, which makes them fight for reputation. These conflicts give rise to the problem of power, the fundamental problem of political science, which Hobbes clarifies in two lines: “So that in the first place, I put forward a general inclination of all mankind, a perpetual and restless desire for power after power, that ceaseth only in death” (1946, chap. 11, para. 24). The state of nature is terrifying because the desire for power generates a state of war. This is an intolerable condition, one that individuals sooner or later must abandon if they wish to save what is most precious to them: their lives.

Right reason suggests to human beings a set of rules in the form of laws of nature that aim at ensuring peaceful cohabitation. These rules are subordinated to a primary rule that prescribes the seeking of peace. Individuals have no interest in observing a rule if they are not certain that others will do the same. There is but one way to make the laws of nature effective and to make human beings act according to their reason and not their passions: the institution of the irresistible power of the state. To exit the state of nature and to establish civil society, reasoning individuals must enter into a universal and permanent “covenant of union.”

Because the state of nature is insecure, the principal aim of the agreement is to eliminate the causes of insecurity, greatest of which is the lack of a shared power. The aim of the contract that founds the state is to constitute a shared power. The only way to do so is for all individuals to consent to give up their own power and transfer it to one person, be it natural or artificial; for example, an assembly. This entity will have as much power as is necessary to prevent all individuals from harming others by the exercise of their own power.

Individuals acquire a fundamental obligation as a consequence of this *pactum subjectionis* (pact of subjection); namely, the obligation to obey all commands of the holder of shared power. Within this covenant of union, an agreement in which all parties agree to subject themselves to a third party who does not participate in the contract, the third party’s power combines the supreme economic power (*dominium*) and the supreme coercive power

(*imperium*). “There is no power on earth,” says the verse from the Book of Job that describes the sea monster Leviathan, “which is equal to it” (Job 41:24).

By holding that the sovereign power is irrevocable, Hobbes opposes the theory of trust on which Locke later rests his social contract. By holding that the sovereign power is absolute, in the sense of *legibus salutus* (not bound by laws), he denies the various theories that favor limiting the power of the state. Since individuals give up the right to all things in the covenant in order to preserve their lives, they retain only the right to their own lives. Thus, human beings must consider themselves released from the obligation to obedience only if the sovereign endangers their lives.

Hobbes’s justification of absolutism runs counter to a long-held principle of English constitutional doctrine, according to Bracton’s classical formulation: “The king must not be under man, but under God and under the law, because law makes the king” (Bracton 1968, 33). Hobbes easily rejects the thesis according to which the sovereign is subject to civil law (*thesis* in the terminology of Hayek), with the argument that no one can oblige oneself. Since civil laws are issued by sovereigns, the sovereigns would impose an obligation on themselves, were they subject to obligations.

But a more serious question must be answered: how is this unlimited sovereign power to be reconciled with other laws; namely, the common law (*nomos* in the terminology of Hayek) and natural law? Not surprisingly, Hobbes is a declared enemy of common-law supporters, most notably hostile to Sir Edward Coke, the great protagonist of the common law. “Custom of itself maketh no law,” Hobbes states in *Leviathan* (1946, chap. 26, para. 176).

As a proponent of natural law, Hobbes repeatedly affirms that the sovereign is subject to the laws of nature and of God. However, in his view, the laws of nature are rules of prudence, or technical norms, compliance with which depends on one’s judgment about the feasibility of pursuing one’s objectives in given circumstances. Only sovereigns can make this judgment in their relations with their subjects, toward whom they are not bound by any covenant; they have no *external* obligation to anyone to comply with the dictates of right reason.

Since the laws of nature oblige only in conscience, the dictates of right reason do not limit the sovereign’s power. Once the state has been instituted, there exist for the subjects no criteria of just or unjust other than the civil laws. This view makes Hobbes’s moral theory one of the most extreme expressions of ethical legalism: what is right is what the sovereign commands. For example, Hobbes insists in *De Cive* that “though the law of nature forbids theft, adultery, etc. yet if the civil law commands us to invade anything, that invasion is not theft, adultery, etc.,” and “[n]o civil law whatsoever, which tends not to a reproach of the Deity—can possibly be against the law of nature” (1845, chap. 10, para. 190–91).

In this perspective, there can be no theory of the abuse of power, since

abuse consists of going beyond established limits. On the contrary, what may prompt subjects to consider themselves released from the duty of obedience is not abuse, but defect of power. Sovereigns who prove incapable of preventing their subjects from relapsing into the state of nature do not perform their task. Subjects then, and only then, have the right to look for another protector.

Interpreted along these lines, Hobbes's political philosophy conforms to only one version of modern natural-law theory: that natural law constitutes the foundation of validity of the positive legal order, taken as a whole (Bobbio 1993, 157). This version of natural-law theory serves his purpose of founding rationally the ideology of the absolute state. The distinct feature of this version of natural-law theory is its acknowledgment that once the state has been instituted, only one law of nature survives; namely, the law that imposes on human beings the obligation to obey civil laws.

Thus, if a conflict were possible between civil law and natural law, "the citizen who obeyed the latter rather than the former would violate the general law of nature which prescribes obedience to civil laws" (Bobbio 1993, 165). Civil law is based on the law of nature, but once civil law has been established, the norms of the system derive their validity from the authority of the sovereign and not from the particular laws of nature. Hobbes admits only two exceptions to this duty of obedience: (1) when sovereigns command subjects to offend God; (2) when sovereigns command subjects to honor them as if the sovereigns were God. In this way, Hobbes deploys the most sophisticated ingredients of natural law—the state of nature, individual rights, and the social contract—to develop a logically consistent theory of obedience to the state.

I shall attempt to demonstrate in this essay that classical liberal scholars who seek to justify limited government by reference to Hobbesian arguments logically must fail to do so and, almost inevitably, end up at some point on the anarchy-order spectrum with their original classical liberal principles in disarray.

Oppression-versus-Freedom: The Political Philosophy of John Locke

In order to understand the political philosophy of John Locke (1632–1704) and to distinguish it from that of Hobbes, it is essential to return to the concept of the state of nature, which is the starting point in Locke's genetic account of the rise of civil societies. For Locke's concept of the state of nature differs fundamentally from that of Hobbes in moral as well as in strictly positive characteristics.

Hobbes's social characterization of the state of nature in *Leviathan* is unambiguous. Life is portrayed as "solitary, poor, nasty, brutish and short," a condition of war with "every man against every man," in which there is no industry, no culture, and no real society (1946, chap. 13, para. 8–9). The

moral condition of individuals in that state is less clear, although it is evident that they have no moral rights or obligations at all in the ordinary sense—"the notions of right and wrong, justice and injustice, have there no place" (chap. 13, para. 13).

Locke's social characterization of the state of nature is much less bleak than that of Hobbes. In *Two Treatises of Government*, first published in 1690, he asserts that "Want of a common judge with authority, puts all persons in the state of nature," (Bk. II, para. 19) and "Men living together according to reason, without a common superior on earth, with authority to judge between them, is properly the state of nature." Locke consistently claims that wherever no one is entitled to settle controversies between two persons, wherever there is no authorized referee to judge between them, those persons are in the state of nature. It is important to note that he considers this a sufficient and not a necessary condition.

Within this characterization, the presence or absence of effective government is not at issue. According to Locke, individuals may be living under effective, highly organized government and still be in the state of nature, if the government is illegitimate with respect to these individuals. At the very least, it is necessary to build into the definition the absence of *legitimate* government. To deal with this concept, one must take account of Locke's moral characterization of the state of nature, which also differs sharply from that of Hobbes.

Locke's definition of the state of nature clearly incorporates moral elements, making use of such notions as legitimacy and voluntary agreement. Individuals are endowed with full-blown moral rights and obligations defined by the eternal and immutable law of nature (Bk. II, para. 135). Although the particulars of the law of nature are not defined in any detail, their general form is clear. They consist of duties to preserve oneself and others by not harming persons in their lives, liberties, and properties. In the state of nature, persons enjoy their full complement of "natural rights," which correlate with the natural duties of others to respect those rights.

Each individual, Locke affirms, is born to inherit this set of rights and duties and receives them fully on reaching maturity (Bk. II, para. 55, 59). Natural rights are a "grant or gift from God" (Bk. I, para. 116), which individuals possess intact until they consent to enter a legitimate civil society, surrendering some of these rights in the process. However, private contracts between individuals are fully consistent with the state of nature. Such contracts may alter the existing structure of rights and duties among mature individuals; save only those rights and duties that in principle are inalienable. In this sense, consent "carves the boundaries of natural law" (Simmons 1993, 25).

What is the social characterization of the state of nature? Locke sets forth two contrasting situations. At one extreme, he describes the state of nature as "a state of peace, good will, mutual assistance and preservation" (Bk. II, para. 19). At the other extreme, he describes it as "a state of enmity,

malice, violence and mutual destruction” (Bk. II, para. 19). Both descriptions are of *possible states* of nature, but neither is of *the* state of nature (Simmons 1993, 28). Where individuals almost always abide by the laws of nature, the state of nature will be one of peace, goodwill, and the like; where individuals typically disregard the law, the state of nature will be one of enmity, malice, and the like.

Since individual behavior almost always falls between these two extremes, the social characterization of the state of nature in the *Two Treatises* is a mixed account, or as Locke puts it, “one of mediocrity” (Journal entry, March 20, 1678). It is a state of limited safety and considerable uncertainty, of significant but not desperate inconveniences, and in which only certain limited forms of political society will be preferable. Locke, in contrast with Hobbes, focuses more on the moral than on the social characterization of the state of nature. For Locke, the only intelligible choice is between some limited form of government and anarchy. Along these lines, the absolute government favored by Hobbes is clearly worse than the worst consequences of anarchy.

In one respect, both Hobbes and Locke share the same view. They are fundamentally opposed to political naturalism, which holds that the natural condition of humans is a *political* condition; that individuals naturally are subject to political authority; that there can be no understanding of morality or social understanding except within the context of some form of political organization. Contemporary political naturalists take their inspiration from Aristotle or Hegel. Locke was more concerned with defenders of the divine right of kings, like Filmer (1680), whose patriarchal theories of authority defended the autocracy of the House of Stuart.

The Lockean assertion that each individual is born free in the state of nature correctly recognizes that we are not born into political communities, even if we are born into the territories of such communities. We are not naturally citizens and must do something to become citizens. The claim that our natural moral condition is nonpolitical “is a refusal to accept mere accidents of birth as the source of substantial moral differences among persons” (Simmons 1993, 38). It is from this strong foundation that Lockean political volunteerism begins and develops and from which Nozick’s (1989) retreat into communitarianism can be seen to be philosophically flawed.

Locke clearly depicts the state of nature as a state of “*perfect freedom* to order their Actions, and dispose of their Possessions, and Persons as they think fit, within the bounds of the law of Nature, without asking leave, or depending upon the Will of any other Man” (Bk. II, para 4). In this sense, his political philosophy clearly runs on the freedom-versus-oppression and not on the anarchy-versus-order spectrum. Locke’s state of liberty, however, is not a state of license. The state of nature has a law of nature to govern it, which obliges every individual: no individual “ought to harm another in his Life, Health, Liberty, or Possessions” (Bk. II, para. 6).

The law of nature essentially reflects the moral claim of each individual

to negative freedom and the duty of each individual to uphold the negative freedom of all others. To this end, each individual has an executive power to punish the transgressors of the law of nature “to such a Degree as may hinder its Violation” (Bk. II, para. 7). Indeed, those who transgress the law of nature to a sufficient degree may forfeit their own rights to life, liberty, and property. The constant danger of the state of nature degenerating into a state of war is the chief reason advanced by Locke for preferring a limited government (civil society) to the state of nature.

Locke was fully aware of the inconveniences of the state of nature, which he deemed “must certainly be great” because men may be judges of their own case. Yet, he considered this a much better situation than that in which individuals are bound to submit to the unjust will of others. At least, in the state of nature, if individuals judge wrongly in their own or any other case, they are answerable to the rest of mankind. By agreeing to leave the state of nature and to enter into civil society, individuals necessarily sacrifice their right to judge and to punish the breaches of natural law by others. This is no mean sacrifice, and it will not be countenanced unless the civil society is strictly limited with respect to the authority that it subsumes.

Civil societies and governments do not possess rights naturally; only individuals have that capacity. For Locke, there is only one possible process by which such political rights can be secured. Only voluntary alienation by the right holder—consent, contract, trust—can give another person or body political power over the right holder. “Men being—by nature, all free, equal, and independent, no one can be put out of his estate, and subjected to the political power of another, without his own consent” (Bk. II, para. 95). “No government,” he adds, “can have a right to obedience from a people who have not freely consented to it” (Bk. II, para. 192).

Locke’s wording makes it clear that by “consent” he means the actual personal consent of each individual. Hypothetical contractarianism plays no role in his political philosophy. Once actual consent is abandoned as the ground on which civil society is made to rest, we also abandon much of what is most compelling about classical consent theory—namely, the clear, uncontroversial ground of obligation on which it relies, and the high value of self-government with which it remains consistent (Simmons 1993, 78). Societies that refuse to permit or fail to facilitate free choice of political allegiance are simply illegitimate; however, many such societies might actually exist.

Locke’s emphasis on personal consent does not imply any special commitment to democratic government. Consent, for Locke, is the source of a just government authority and its citizens’ obligations. It does not determine the form that the government will take. Democracies may be legitimized by consent, but so may oligarchies and monarchies, hereditary or elected. Individuals consent to membership in the society. The majority then determines the form of government to be entrusted with that society’s political power. However, a separate, special consent (Bk. II, para. 138-40)

is always required to resolve the issue of taxation under any form of government.

That all individuals possess certain natural, inalienable rights, a thesis closely associated with Locke, is seen as strictly limiting the proper sphere of government. The concept of inalienability should, however, receive close examination. One view, closely associated with resisting oppression, is that an inalienable right is a right that no person can take away. A different, and more extensive, view is that it is a right that cannot be lost in any way, whether voluntarily or involuntarily.

According to Simmons (1993, 103), neither of these interpretations of inalienability is true to the seventeenth- and eighteenth-century employments of the concept. Revolutionary authors typically viewed inalienable rights as rights that no citizen could be understood to have given away. This view conforms with Locke's rule that "[n]obody can give more power [rights] than he has himself" (Bk. II, para 23). We can alienate only rights not connected with the preservation of ourselves or others.

From this perspective, governments cannot have the power to take our lives (unless we commit an appropriate crime), to deprive us of property at will, to rule by arbitrary decrees, or to tax us without our consent, because all these actions amount to the exercise of arbitrary powers that might endanger our lives if exercised maliciously. Each such transfer of power would be contrary to the natural law of preservation, "which stands as an eternal rule to all men, legislators as well as others" (Bk. II, para 135). In this sense, Locke's limits on government power imply that we cannot transfer to government rights that we ourselves lack. Only in this sense does Locke construe the moral limits on government to be limits set by the citizens' inalienable rights.

Precisely because Locke's philosophy is focused on the freedom-versus-oppression spectrum, the *Two Treatises* may be viewed as a work designed "to assert a right of resistance to unjust authority, a right, in the last resort, of revolution" (Dunn 1969, 28). It is Locke's attempt to evaluate the moral consequences of governmental transgressions of its limited authority. Locke's use of strong-rights claims allows the revolutionary a moral high ground to stand on in resisting government (Simmons 1993, 152). When Locke's citizen defends his rights, those who oppose him also wrong him by breaching their duties to respect his rights. Crucial to this judgment is Locke's argument that rights can only be alienated by those who possess them and that certain rights are inalienable in the sense just defined.

Locke employs two distinct lines of argument in justifying a popular right of resistance to oppressive government. In his first line of argument, he justifies such resistance on the ground that, under certain conditions, a state of war exists between the people and their government. Here Locke focuses, naturally, on the case of tyrannical executive power (James II). In such cases, the oppressors forfeit all rights under the law of nature and may themselves be lawfully killed or used at will by any other person.

In his second line of argument, Locke notes that when governments act contrary to the terms of trust “by this breach of trust they forfeit the power the people” have “put into their hands” (Bk. II, para. 222). Such a breach of trust need not involve either a basic breach of natural law or the forfeiture of all natural rights. Governors who breach their trust reduce themselves to the status of ordinary persons without authority (Bk. II, para 235).

Being thus deprived of their referee, the common judge over them all, the people might seem to be returned to the state of nature as a consequence of the misconduct of their government. Locke, perhaps incorrectly, rejects this inference: “The usual and almost only way” political societies themselves are dissolved “is the inroad of foreign force making a conquest upon them” (Bk. II, para. 211). Otherwise, political societies remain and the governments actually “dissolve themselves,” leaving the people morally free to seek new avenues for securing their rights (Simmons 1993, 163).

The Shift to the Anarchy-versus-Order Spectrum

Having presented the foundations of the two political spectrums, I will now explain the apparent retreat from classical liberal philosophy evident in the writings of Robert Nozick and John Gray in the very year (1989) that witnessed the final collapse of classical liberalism’s archenemy, Marxist-Leninist philosophy. I shall attempt to explain that this inexplicable change of course occurred not as a retreat but as a shift of focus from the freedom-versus-oppression to the anarchy-versus-order dichotomy. It is entirely possible that this shift of focus occurred unconsciously rather than explicitly on the part of Nozick and of Gray. The consequences, in any event, are profound.

Robert Nozick

In 1974, starting with a strong assumption of value pluralism, Nozick concluded that there was indeed a utopia, one best society for *everyone* to live in, even though there would not be *one* kind of community existing and one kind of life led in utopia. He conceived of this utopia as a framework for utopias: “a place where people are at liberty to join together voluntarily to attempt to realize their own vision of the good life” (309). Utopia in this sense is a society governed by the Lockean minimal state. This morally favored state, “the only morally legitimate state, the only morally tolerable one,” (333) is the one that best realizes the utopian aspirations of untold dreamers and visionaries:

The minimal state treats us as inviolate individuals, who may not be used in certain ways by others as means or tools or instruments or resources; it treats us as persons having individual rights with the dignity this constitutes—How *dare* any state or group of individuals do more. Or less. (334)

In 1989, this vision of utopia was denied by Nozick as “a book of political philosophy that marked out a distinctive view, one that now seems seriously inadequate to me” (17). A careful reading of *The Examined Life* suggests that in the act of denying his early scholarship, Nozick has shifted focus from the freedom-versus-oppression to the anarchy-versus-order dichotomy.

First, in his discussion of different stances, Nozick suggests that the very question, How can I be free? is rooted in excessive egoism. He suggests that the relative stance, in contrast, asks how one can be related to external reality and can prize determination of action. What would be regrettable, from the point of view of this stance, would be a determinism that was only partial, one that was not complete enough (Nozick 1989, 161). Second, in his discussion of authority, Nozick (1989, 175) notes that authority has legitimacy to the extent that those commanded feel obligated to obey. A leader functions to resolve the competition of goals. Only under special conditions can society avoid the need for leadership of some sort. Third, in his discussion of Plato’s degree of reality theory (Nozick 1989, 199), Nozick emphasizes such criteria as being invariant under certain transformations, being more permanent, specifying a goal toward which things move. In all these observations, a yearning for unity or order is apparent.

This yearning for unity takes shape fully in Nozick’s retreat from the minimal state with all the disorder that laissez-faire seems to imply. Democratic institutions now are viewed as vehicles through which we express the values that bind us together, the solemn marking of our human solidarity (Nozick 1989, 287). The zig zag of politics, that sorry Nozickean retreat from the inspiring vision of the moral minimal state, is the only alternative to *Leviathan* for a scholar who has abandoned freedom for order and unity as the supreme goal of mankind.

John Gray

In a sequence of papers published over the period from 1976 to 1988, John Gray pursued the ambitious project of defining classical liberalism and giving it a foundation. Although he always reviewed the writings of the great classical liberal scholars—John Stuart Mill, Isaiah Berlin, Friedrich von Hayek, Herbert Spencer and James M. Buchanan—in an appropriately critical manner, Gray culled from their contributions ideas that clearly provided the *moral* foundations for the limited, if not for the minimal, state. There was no real hint in these papers that his project would end in 1989 with a condemnation of classical liberal ideology as an inevitable failure: “Our circumstance, then, is the paradoxical one of post-moderns, whose self-understanding is shaped by the liberal form of life, but without its legitimizing myths, which philosophic inquiry has dispelled” (Gray 1989a, 240).

A careful reading of Gray’s scholarship, in both his 1989 volume, *Liberalisms*, and his 1993 *Post-liberalism*, suggests that Gray also has shifted from the freedom-versus-oppression to the anarchy-versus-order dichotomy

in his denial of his early scholarship. This shift of focus apparently has been driven by the influence of Thomas Hobbes and Michael Oakeshott and by a misunderstanding of the writings of James M. Buchanan.

In his paper on Hobbes (Gray 1989b), Gray comments that “there is an arresting contemporaneity about many of Hobbes’s insights that we can well profit from,” and in his 1993 volume he states that “[f]ar from being an anachronistic irrelevance, Hobbes’s thought is supremely relevant to us, who live at the end of the modern era whose ills he sought to diagnose” (3). In Gray’s view, “the modern state has failed in its task of delivering us from a condition of universal predation or war of all against all into the peace of civil society” (Gray 1993, 3). In its weakness, the modern state has re-created in a political form that very state of nature from which it is the task of the state to deliver us: “In this political state of nature, modern democratic states are driven by a *legal and political war of all against all* and the institutions of civil society are progressively enfeebled” (Gray 1993, 3).

According to Gray, the paradox of the Hobbesian state is that whereas its authority is unlimited, its duty, the maintenance of civil peace, is minimal. Civil peace encompasses that framework of civil institutions whereby men coexist in peace with one another, notwithstanding the diversity of their beliefs and enterprises and the scarcity of the means whereby these are promoted. In this Hobbesian perspective, the liberties of the subjects of a civil society “are not absolute or inalienable rights, since they may be circumscribed by the requirements of a civil peace in the absence of which they are altogether extinguished” (Gray 1993, 10). Liberties (such as they are) are intimidated by the spirit of civil society itself, which is held together only by recognition of the sovereign. The Hobbesian state, according to Gray, is the classical solution of the prisoner’s dilemma “in that the Hobbesian contract, by providing for agreed-upon coercion to obey known rules, releases its covenanters from destructive conflict into the peace of civil life” (13).

In his 1992 paper on Michael Oakeshott, Gray notes approvingly that Oakeshott rejected, as a prime example of rationalism in politics, the attempts by Locke, Kant, and Mill to fix, once and for all, the proper scope and limits of the authority of government. This rejection is based on the belief that the proper tasks and limits of government cannot be determined by reasoning from first principles.

In Oakeshott’s view, political discourse is not an argument, but a conversation. Gray (1993) is especially enamored of Oakeshott’s “pluralist affirmation of the diversity of modes of discourse and experience, of moralities as vernacular languages whose nature it is to be many and divergent, and of the miscellaneity of practice, which no theory can hope to capture, that embodies his most distinctive contribution to philosophy” (46).

Gray captures the spirit of Oakeshott’s thought in a single phrase: “critique of purposefulness.” The image of human life that Oakeshott conveys to him is not that of a problem to solve or a situation to master. It is, instead, our image of being lost in a world in which our vocation is to play

earnestly and to be earnest playfully, living without thought of any final distinction. That image does contain freedom, but not the kind of freedom that requires eternal vigilance as characterized in classical scholarship. Rather, it is the freedom of the boat without the compass.

Gray is not content, however, to end his philosophical journey in some Oakeshottian skepticism of human action, viewing philosophical discourse as so much flotsam and jetsam, tossed here and there on the tides of political events. Gray instead seeks out an anchor, in the wake of classical liberal philosophy, in the form of civil society. He anchors the concept of civil society, at least in part, in the scholarship of James M. Buchanan, who, paradoxically, he recognizes as focusing a “profound moral concern for the fate of free man and free peoples” in his reconstitution of classical political economy (Gray 1993, 47).

Gray is particularly attracted to Buchanan’s indirect, proceduralist contractarianism based on methodological individualism but presupposing the cultural inheritance of Western individualism, with its roots in Christianity and Stoicism. In Gray’s view, it is this cultural context that enables Buchanan to make the hazardous passage from Hobbesian despair to Humean hope, from the *Leviathan* of unconstrained majoritarian democracy to the limited government of constitutional democracy.

In his 1990 paper, Gray places at the crux of his inquiry the question, What is the place of liberty in Buchanan’s contractarian approach? He notes that Buchanan does not privilege liberty from the outset, that his approach does not issue in a determinate list of basic liberties that are fixed and unalterable. This is not surprising, given the Hobbesian pedigree of Buchanan’s political philosophy (Buchanan 1975).

Buchanan is also clear, argues Gray, that in any plausible real-world situation, contractarian choice will not yield a Lockean, Nozickean, or Spencerian minimal state; nor will it necessarily issue in unencumbered Lockean rights. Indeed, limited government, according to Buchanan, would surely have some redistributive functions. According to Gray (1993), in Buchanan’s system “liberty is not given the apodictic priority it has been in Kantian-inspired contractarianism, nor is it the case that the role of the state is defined by the protection of Lockean rights” (60).

Nevertheless, suggests Gray, Buchanan’s contractarianism is bound to bring about, in most real-world contexts, the enhancement and protection of individual liberty. It does so by virtue of its exploitation of the classical insight that voluntary exchange is mutually beneficial. It does so again because it defends the market economy in terms of its contribution to human autonomy rather than of any abstract conception of general well-being or collective welfare. And it does so finally in virtue of its insight that, provided there is a suitable framework of law, the undesigned coordination of the market is superior to any that can be generated by command or coercion.

Buchanan’s contractarianism, Gray concludes, cannot give universal protection to the personal or civil liberties central to the Western individ-

ualist tradition. Gray finds this limitation to be both inevitable and even desirable: "It is far from self-evident, and sometimes plainly false, that the institutions and civil liberties of even limited democratic government are always and everywhere appropriate and defensible" (1993, 61). In Gray's judgment, if liberty has a future, it will have been fortified by Buchanan's work. For the final message of Buchanan's thought, as he interprets it, is that if we wish to preserve the precious heritage of Western individualism, we are bound to engage in the project of theorizing the world as it is, without illusion or groundless hope.

Conclusion

In my view, the retreat from classical liberalism on the part of both Nozick and Gray is completely explained by their shift, in a troubled world, from a preoccupation with the goal of preserving liberty to that of preserving order; that is, from a commitment to the philosophy of Locke to that of Hobbes. In both cases, reliance is now placed on some broad-tent notion of civil society as a basis for preserving the political legacy of classical liberal philosophy from the ravages of totalitarian pressures.

I am far from optimistic about this pragmatic judgment for a number of reasons, some of which Buchanan (1975) himself shares. First, if Gray is truly correct about the Hobbesian nature of man, there really is no prospect of a social contract short of that which creates *Leviathan*. All potential parties to a Hobbesian contract, except for a contract in which they hand over all authority to a superior being, must surely anticipate that the parchment of that contract will be shredded by amoral individuals in the postcontractual environment. Civil society, in such circumstances, swiftly must collapse into Jasay's (1985) plantation state, whatever the status of the constitutional agreement.

In this respect, Gray simply misunderstands Buchanan's insight in *The Limits of Liberty* (1975). Surely, Buchanan employs the Hobbesian model when he rationalizes contractual consent for limited government as an alternative to anarchy. Like Locke, however, Buchanan employs Hobbes as the *pessimistic scenario* of the state of nature, the threat that leads free individuals into civil society. This does not imply that Buchanan believes Hobbesian man to be the norm. Far from it. All his scholarship on constitutional political economy is predicated on the notion that humans possess *Lockean* characteristics, search for release from the prisoner's dilemma of unlimited democracy, and wish to force themselves to be free. This grievous misunderstanding leaves Gray with a concept of civil society that has little resemblance to the strictly *limited state* of Buchanan.

Second, Gray, far more than Buchanan, is willing to countenance redistributionist transfers as a legitimate function of civil society. In so doing, he denies the Lockean notion of the right to property that prevents the minimal state from being mutilated as a commons in which the rent-seeking dilemma leads to a war of each against all.

Third, once attention is diverted from the priority of preserving liberty to the priority of preserving order, the dike is opened for those who would invade individual rights to do so under the guise of avoiding anarchy. One has only to review the reactions in all branches of government to the tragedy of Oklahoma City to see how quickly opportunities to trample on liberties are seized upon by those who perceive economic or political gain.

Finally, and almost inevitably, those who embrace Hobbesian philosophy tend to focus either exclusively on analyzing what is or what conditionally might be (avoiding entirely all moral discourse) or to ignore Hume's naturalistic fallacy and seek to create an *ought* from an *is*. Ultimately, of course, such an endeavor is doomed to failure.

In this vale of tears, if one believes in a moral philosophy, one had better articulate it clearly and pursue it with a heart that pumps more than blood. In my view, classical liberal philosophy is far from dead. Indeed, it is alive and well and worthy of the most serious consideration in the post-communist world order.

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Regulation of Carcinogens

Are Animal Tests a Sound Foundation?

◆

AARON WILDAVSKY

Why does it matter if animal cancer studies are worthwhile or worthless or someplace in between? The answer to this question is that regulation of exposure to chemicals, including the intermittent exposure to trace elements to which the general public is subject, is largely based on interpretations of animal cancer bioassays. If these tests are reasonably accurate in predicting the probability, sites, and severity of human cancers, then regulation of chemicals suspected of causing cancer (carcinogens) is on firm ground. But if these animal cancer tests are weak or worse, so that one cannot reasonably predict human cancers from them, then regulation rests on quicksand.

Whether or not rodent tests predict human cancers, animal studies have many other important uses. Research into cancer mechanisms or problems of the immune system, for instance, may be furthered by introducing novel genes into small animals, such as transgenic mice, to discover better how life systems work (Hanahan 1989). There is no doubt that models based on research with animals have increased our understanding of metastasis, which is so important in the spread of cancer (Schirmacher 1989). None of the many invaluable uses of animal cancer tests, however, tells us whether they can come close enough often enough to be a valid source of evidence in predicting human cancer.

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The Right Questions

We would like to know how much damage to human populations is caused by different types and quantities of exposure to various substances. That estimating requires answering subquestions about conditions. Routes of exposure may differ in that some come from breathing, others from eating, and still others, such as x-rays, through the skin, from natural sources and medical uses. Quantities may differ from a little to a lot to immense. Timing of exposure differs from all at once to over long periods of time. If a precise answer to the question of adverse effects cannot be given, we might be satisfied with knowing that there is a great deal of harm or moderate or very little or probably none (see Hattis and Kennedy 1986, 66).

How reliable are these tests? If the tests were repeated on the same species, would we get nearly the same results? If they were repeated on different animal species, would we come up with similar results? If chemicals are carcinogenic in several animal species, it is more likely that they are carcinogenic to mammals in general, including human beings, than if they cause cancer in a single species. It is also important to distinguish rates and sites of cancer by age, because cancer is largely, though not entirely, a disease of old age, and by sex, because men and women are affected differently.

Dioxin in large and continuous doses appears unfriendly to mammals, but it is the dose that matters. Regulatory agencies assume that chemicals carcinogenic at some dose in any animal are also carcinogenic to human beings. We want to find out if that assumption is true.

As precisely as possible we wish to answer Freedman and Zeisel's question, "Are chemicals that have been shown to be carcinogenic through experimental animals also carcinogenic to humans?" (Freedman and Zeisel 1988, 14). The reason for their inclusion of the modifier "experimental animals" has to do with the particular conditions under which animals are tested. Therefore they also ask, "Do experimental animals (rodents, in particular) and humans have similar susceptibility to the carcinogenic effect of chemicals, or are rodents incomparably more susceptible than humans?" (14). The answer to the first question is: "sometimes" rodent cancers are cancers in humans too, but we do not know when. The same is true of one type of rodent to another. The answer to the second question is: "yes, mostly, but not always." If we know that a single LD50 dose for dioxin ranges from 2500 µg/kg in guinea pigs to 5000 in hamsters, a difference of 2500, does that give us confidence about rodent-to-human transfers?

Suppose we were to find that there is a 10 percent probability that a substance causing cancer in a mouse or rat at a given dose will do the same in a human being. From one point of view, 9 times out of 10 the extrapolation from mouse to man would be wrong. From another point of view, why take chances with human health if the probability of getting a cancer is that high?

Were we to find, however, that when we get the answers from the tests we would know within a factor of several hundred times to several hundred thousand times whether rodents predict to humans, that might not be a reasonable approximation. The question is not only whether we can get an answer but what kind of answer we will get.

The Process of Animal Cancer Testing

Around 1915 or 1916 scientists learned that they could induce cancer in animals by treating them with certain chemicals. The methods of giving animals cancer vary greatly. Chemicals have been introduced into experimental animals by every orifice (orally, nasally, urethrally, vaginally, rectally), by various types of injections (intramuscular, intraperitoneal, intravenous, subcutaneous), by skin painting, by surgery, and by other methods (American Council on Science and Health 1984, 7).

Approximately 30 percent of the rodents get some form of cancer absent exposure to chemicals, though not all 30 percent die of it. This is one reason why a control group is essential. Because a chemical's effects at high doses may not show up at low doses, it is necessary to further subdivide the animals into different dose groups. Given that sex plays an important role in cancer, a further subdivision is between male and female. Usually there are three dose groups (0, 0.5, or 0.1 the maximum tolerated dose [MTD], and the MTD) and two species. There are at least 12 groups of animals. By convention and by statistical necessity, there are usually 50 animals, most often rodents, in each group.

Though only a few facts about the process of animal cancer testing have been given, we are already in a position to understand three of its most basic aspects—its short time compared to human epidemiological studies, its high cost, and its essentially statistical character. A great advantage of rodent testing is that these animals live only about two years. Therefore one doesn't have to wait too long to get results. One can also test any chemical, including new chemicals, for which epidemiological evidence may not be available. But the task is not easy or cheap. It is costly to keep these animals under controlled conditions for up to two years. The painstaking work of examining animals for tumors requires pathologists. When each animal dies or, as the too-kind parlance states, is sacrificed, several pathologists must carefully examine about 40 sites within and around animal organs and tissues to search for tumors, some of which are so small they can be discerned only with high-powered microscopes.

That is why there is a team of pathologists who first work separately and then meet to resolve differences before their findings are accepted for further evaluation (Chu, Cueto, and Ward 1981). These pathologists consider whether the tumors or other abnormalities are actually induced by the chemical, an opinion based on what they know about the normal incidence of tumors and their experience. They ask themselves not only whether the

incidence of tumors is higher but whether they are of a different size or shape or color or contain any other signs that might show them to be similar to or different from naturally occurring lesions (Chu, Cueto, and Ward 1981, 256–57).

In order to understand better whether the proper dose was administered, the animals have to be weighed to discern whether they have lost appropriate amounts of weight and examined to see whether the dose is either so large as to threaten their lives from causes other than cancer or so small as to make its effects unnoticeable.

Now we are in a position to understand why rodent cancer tests are so expensive. When one multiplies the time these tests take, roughly three years, by the cost of keeping 12 groups of animals in controlled conditions, then adds the costs of killing and dissecting them, preparing and examining 40 slides per animal, and reconciling differences, the substantial costs do not appear out of line (see the discussion in Rowan 1984). It is possible for a government regulator to conclude that the tests are inadequate or that the substance being tested is a carcinogen. But it is not possible under the rules to say that the substance is not, insofar as is known, a carcinogen; the closest government scientists are allowed to come is to say that “the compound has not been shown to be carcinogenic” (Chu, Cueto, and Ward 1981, 252–53). What, we may ask, is the meaning of classifying a substance as a suspected carcinogen? It is worth attending closely to Chu and his colleagues’ discussion:

If malignant tumors or a combination of malignant and benign tumors are produced, then the compound is considered carcinogenic to the animals. If the significant result is only the production of benign tumors, then the compound may pose a potential health hazard and is termed a suspected carcinogen or a carcinogen, depending on the nature of the benign tumor. For example, 2,4-dinitrotoluene...was considered a suspected carcinogen since it induced only benign tumors (fibromas of the skin and subcutaneous tissue in male Fischer 344 rats and fibroadenomas of the mammary gland in females). Ideally, a distinction should be made between truly benign tumors, which never progress to malignancy, and tumors that are in a benign state according to histopathologic criteria at the time of diagnosis. Scientific judgments in this area are limited by inability to predict the biological behavior of a lesion on the basis of morphological criteria, but it appears that there are few, if any, truly benign tumors in rodents. (Chu, Cueto, and Ward 1981, 257–58)

The “it appears” in the last sentence above reflects a judgment that any tumor might turn bad. Is it in the interests of public safety to treat all tumors, however benign in appearance, as if they might turn malignant, because we do not know they won’t? Or is saying that they might turn

malignant a way of prejudicing the outcome so that the chemicals will be found to induce cancers whether they do or don't?

In the Environmental Protection Agency (EPA) 1976 "Interim Procedures and Guidelines for Health Risk Assessments of Suspected Carcinogens," EPA Administrator Russell Train acknowledged that animal tests could not prove that a chemical would be carcinogenic in people, but that a substance would be considered a "presumptive cancer risk" if it "causes a statistically significant excess incidence of benign or malignant tumors in humans or animals" (p. 21403). If benign is bad, what could be good?

Calculating Toxicity by the LD50 Test

In the field of pesticide regulation, lethality is calculated through the assignment of an LD50, the lethal dose for one-half of the test animals during the test period. The relevant number for aspirin would be 730 mg/kg, signifying that 50 percent of the test animals died when exposed to 730 mg of aspirin per kilogram of their body weight (Edwards n.d.). The larger the LD50, the more of a substance it takes to produce a toxic effect and the less harmful the chemical.

Among species most commonly used to carry out the LD50 test are fish, birds, rabbits, mice, and rats, although occasionally monkeys and dogs are used. Generally, about 60 animals of a particular species and a specific dosing method are used. The application is made by inserting a tube down the throat of the animal, by forcing injection of vapors, or by application to the skin (Paget 1970). The usual test lasts about two weeks, during which the animals either die or, at the end, are killed. The usual symptoms are bleeding from the mouth or eyes, convulsions, diarrhea, and what are exquisitely termed "unusual vocalizations." Rather than tolerate early death, according to the British Toxicological Society (1984), "There is pressure on the toxicologists to allow the study to continue, even when the animals are in distress since their premature killing may alter the end-point of the study, and so possibly affect the classification of the material being tested." Needless to say, animal rights advocates are not happy with this method.

Whether one believes that the LD50 test involves "a ritual mass execution of animals" (Rowan 1984, 207) or that "the main information they give is an indication of the size of dose required to commit suicide" (Baker 1969), or even whether most experts consider "the modern toxicological routine procedure a wasteful endeavor in which scientific inventiveness and common sense have been replaced by a thoughtless completion of standard protocols" (Zbinden 1976), there is ample scientific doubt about the value of the LD50 test for the purpose of predicting effects on humans.¹ The basic difficulty is that enormous differences between different (even closely

1. See Sharpe (1988) for a list of authorities with negative verdicts.

related) species are reported, ranging from 5 to 75 times, which renders findings suspect.² If LD50 tests are useful in providing evidence to save human life from suffering, there would still have to be a debate over whether the animal suffering entailed can be justified. If, however, the observations are too unreliable to be useful, no such question arises.

Toxicity

The best explanation for laymen I have heard of the differences with which we have been concerned—between very large and very small exposures in different kinds of species—comes from reporter Richard Harris of National Public Radio (1992, 8–10), together with a number of cancer researchers and government officials. Their dialogue is instructive:

PENELOPE FENNER CRISP (Environmental Protection Agency):
We're coming to discover that there are more differences between species than we had expected or, frankly, hoped that existed.

HARRIS: It turns out that a great many chemicals that can cause cancer in one species don't seem to do anything at all in another species. Here's an analogy.

[Excerpt from music from a CD]

HARRIS: The difference between rodents and people can be as dramatic as the difference between this CD and an LP. You could drop this CD, get it dusty, even scratch it, you wouldn't necessarily hurt it.

[Sound of record being scratched by a stereo needle and music played from an LP]

HARRIS: But try the same thing with a record, and you can just hear the damage. To be sure, some things will damage either a CD or a record album—say a hot windowsill. Likewise, John Doull from the University of Kansas says some chemicals do cause cancer in all sorts of animals.... Now, nobody's suggesting that these chemicals are harmless, but in some cases scientists believe that the standards may be vastly overstating the health risks. Again, this comes down to a necessary but flawed shortcut the EPA uses to size up a chemical. Scientists give a huge dose of chemicals to rats and then estimate the effects of that chemical at lower doses. By way of analogy, if you drop a bottle from 10 feet off the ground, it's pretty obvious what's going to happen.

2. See the numerous examples in Rowan (1984).

[Sound of glass shattering]

HARRIS: This large drop is equivalent to a large dose of a chemical, and it can be deadly. But what if, instead of taking one bottle and dropping it from 10 feet, you take 10 bottles and drop them from one foot? It's like giving many people a smaller dose of that toxic chemical. Here's what the EPA assumes will happen.

[Sound of several bottles hitting the ground and one of them shattering]

HARRIS: They figure one of the 10 bottles will break. The reasoning is that one-tenth the dose, or one-tenth the drop distance, will do one-tenth the damage. In reality, though, this is what happens.

[Sound of several bottles hitting the ground]

HARRIS: There is, in fact, a safe height you can drop a bottle from without breaking it, and John Doull from the University of Kansas says the same idea holds for toxic chemicals.

DOULL: It is the dose, not the compound, that determines its adverse effects....

HARRIS: So, recently, researchers like Swenberg have started to dig deeper and ask why some chemicals trigger cancer in some animals. It's as though they're trying to understand the difference between turntables and CD players. And Swenberg says one especially interesting example is unleaded gasoline. You may have seen the sticker at the pump warning that gasoline causes cancer in laboratory animals. Well, here's the story with gasoline.

SWENBERG: It causes kidney cancer in male rats only, not in female rats and not in mice.

HARRIS: So what's going on? Swenberg decided to find out by studying those animals, and he discovered that a chemical in gasoline binds to a naturally occurring protein that's only found in the kidneys of male rats.

SWENBERG: And this results in a buildup of the protein and ultimately leads to the development of cancer. And since humans do not synthesize this protein, this is not likely to be a mechanism important to humans.

HARRIS: Swenberg says dozens of other chemicals besides gasoline cause this specific kidney cancer in male rats, including copy machine toner, a bathroom deodorizer, and even a natural chemical called D-limonene.

SWENBERG: It turns out that about two glasses of orange juice contains a carcinogenic amount of D-limonene for the male rat, but it has absolutely no effect on mice or on female rats, and I'm sure it has no effect on humans.

HARRIS: As a result of this research, the Environmental Protection Agency recently decided that if a chemical like gasoline only triggers this kind of kidney tumor in male rats and it doesn't do anything else bad, it's probably not going to cause cancer in people. So far there are just a handful of stories like this where scientists have actually figured out why a compound is causing tumors in certain animals. But there are a lot more studies in the works, including reassessments of dioxin, formaldehyde, and certain PCBs.

Knowledge of mechanisms yields far greater discriminatory power. With such knowledge scientists can determine whether there is a threshold below which there is no damage or whether harm occurs proportionate to the dose, however low that dose is. Without knowledge of the mechanism we cannot be sure of the dose-response relationship.

The War over the Dose-Response Threshold

There is disagreement over whether there is a dose-response threshold, such that below a certain level no harm occurs, or whether the damage is linear, such that harm from a chemical increases or decreases as a proportion of the dose. It is important, to start with, to ask why such an apparently technical matter has occasioned so much dispute. Because the field of toxicology is built on the principle that the poison is in the dose, the opposing linear (or proportional) principle—that there is no threshold dose below which damage cannot occur—is a challenge to toxicological science.

A common statement about dose-response levels is that no one really understands what happens when people are exposed to very low levels of chemicals (see, for instance, Marx 1990). There is no difficulty in finding substances, such as the heart medicine digitalis, that are helpful at low doses but can be fatal at large doses. But that does not answer the question of whether there are substances for which no threshold exists (see Smith and Sharp 1984, 3). Given that there is a considerable range of sensitivity among human beings, it can always be said that some hypersensitive people might be adversely affected. The traditional response has been to use a margin of safety to take care of the supersusceptible. Given also that chemicals may interact with each other to create cancers that neither substance

would alone, it cannot be said definitively that either is safe. By the same token, however, one chemical may render another harmless or less harmful (see *Revision without Revolution* 1984).

The regulatory response is that the dose-response relationship is linear. The rationale is that this provides a margin of safety for the public. The question is whether this assumption is true.

Going further into the “furious battle [that] rages around the ‘threshold controversy’” (Rowan 1984, 234–35), it will be instructive to read a semiofficial account by high-ranking Environmental Protection Agency officials published in a major journal, *Risk Analysis*. The models the EPA uses attempt to establish an upper bound, nearly the worst that could happen, on the basis of a no-threshold linear response. Anderson et al. (1983) are quite open in saying that “recognition that the lower bound may...be indistinguishable from zero stems from the uncertainties associated with mechanisms of carcinogenesis including the possibility of detoxification and repair mechanisms, metabolic pathways, and the role of the agent in the cancer process” (281). In short, for all the EPA knows, there may be no damage at low doses.

Furthermore, “[m]ost often there is no biological justification to support the choice of any one model to describe actual risk” (Anderson et al. 1983, 281). This task would be easy if there were data on actual environmental exposures in human beings, in which case an appropriate model could be fitted to the data. “In the absence of such data a variety of models can be used to fit the data in the observed range, but these models differ sharply [in the danger estimates they produce] at low dose” (281). If the choice of model determines the results, because they “differ sharply at low doses,” why bother with the experiment? Exactly. Employing the justification that nevertheless these models are the best available, Anderson et al. state that “[i]t should be clear from the preceding discussion that the linear non-threshold model has been used by the EPA to place plausible upper bounds on risk, not to establish actual risk” (281). This is a significant admission.

Use of the upper bound misleads people into thinking it is an actual estimate of hazard by an authoritative government agency when it is not. Use of “worst case” scenarios makes no sense, moreover, when the outcome may be zero and there is no biological sense in anticipating epidemic consequences.

Now we know that everything depends on which of the available statistical models are used and whether whichever one is chosen, in the absence of biological indications, tells us what we need to know. Does it?

The EPA claims that the linear, “no dose-response” model best fits knowledge about cancer causation. But its officials could not know this without knowledge of the mechanisms at work, in which case they would be able to choose a model they knew fit the causal relationship. At other times, they acknowledge the real basis for their choice of model, the desire to

choose the most conservative estimate so as to, as the saying goes, act on the side of safety. But are they so acting?

If it is true, as Anderson et al. (1983) say in their appendix, that “[t]here is no really solid scientific basis for any mathematical extrapolation model relating carcinogen exposure to cancer risks at the extremely low levels of concentration that must be dealt with in evaluating environmental hazards” (289–90), then why make one? The answer must be that with going from rodents to people, most regulation of chemicals would lack a rationale that could be called scientific. No man-mouse extrapolation, no science; no regulation. The models that make this extrapolation plausible are the important thing. Extrapolations from animals dosed at very high levels to people exposed to far smaller levels make sense only in the context of the models of cancer causation into which they are meant to fit.

Multistage Models

Is this chemical hazardous? And to what degree at which dose and to whom? Interpretation of cancer causation depends on models, which we can think of as representations of theories, with numbers attached, that give meaning to data. Actually, there have to be two models in one: first, a model of the biology underlying cancer causation, and second, the statistical approximation of that model. Getting accurate results depends both on the predictive power of the biological model of cancer causation and on whether the statistical approximation captures the causal structure of the model. If the model does not well describe cancer causation in human beings and if on top of that the statistical approximation does not well describe the model, the errors in both models multiply to give unsatisfactory results. The task is a daunting one.

We can take the Armitage-Doll model as representative of those used by governmental agencies in regulation. It seeks to describe the relationship between exposures to chemicals and the incidence of cancer at various ages for men and women (see Moolgavkar 1986). The biological version portrays human cells as going through a number of stages that ultimately result in cancer. The hypothesis is that one or more cells receive an insult and then go through several changes that turn them into malignant cells, after which they proliferate. The times and the different stages are not specified. All these stages are probabilistic in that some cells under the same exposure will become cancerous and others will not. “Put another way, with multistage models,” Richard Peto (1977) tells us, “when all the predisposing factors have been allowed for, luck has an essential role in determining who gets cancer and who does not” (1404). Thus the stages in the models are essentially probabilities, and the users do not know whether human cancer proceeds in those stages or according to those odds (Freedman and Navidi 1989, 72). In the field of economics, these would be called Markov chain models, which means essentially that every present stage depends on results

of previous stages. The time spent in the various stages is assumed to be proportionate to the exposure of the affected individual.

The basic difficulty with multistage models, as the reader might imagine, is that there is little reason to believe they actually capture the biological process of cancer formation. At the same time, the statistical manipulations are very far from the causal requirements of the model, so that one has no idea what one has got when the result is cranked out (Moolgavkar 1986; Freedman and Navidi 1989). This brings us to the statistical interpretation of animal cancer studies, the most critical and least understood part of modeling cancer causation.

The existence of 12 different test groups shows that statistical inference is the essence of the matter: after all, conclusions are to be drawn by observing differences between the control group and other animals and between gender and dose groups. This is not something that is done by counting on the fingers of one hand. It requires methods based on statistical theory.

Biological Interpretation of Animal Cancer Tests

Fears et al. are wise in concluding that “[t]here is danger in relying solely on the finding of statistical significance without incorporating biological knowledge and corroborative evidence such as the presence of a dose-response relationship for experimentally consistent results in different species or sexes” (Fears, Tarone, and Chu 1977, p. 1941). But what if there is little or no biological knowledge?

In order to get accurate estimates of the probability that chemicals that cause cancer in animals also cause cancer in human beings, Salzburg (1983) recommends applying “the bioassay to a number of innocuous substances. There have to be some compounds that are not human carcinogens, or the whole exercise of looking for carcinogens makes no sense.” Yet after examining the literature, he finds that “this was never done for the [rodent] lifetime feeding study” (65). His argument needs to be heard in full:

Thus, it would appear that no attempt has ever been made to determine how well society can identify human carcinogens by feeding groups of 50 rats and mice, each, the suspect substance at maximum tolerated doses for their entire lives. Common scientific prudence would suggest that this assay be tried on a group of known human carcinogens and on a group of supposedly innocuous substances (such as sucrose or amino acids) before we either (1) believe that it provides some protection for society (sensitivity) or (2) believe it identifies mainly harmful substances (specificity). There is no substitute for such proper validation on any new bioassay. (Salzburg 1983, 63)

He believes “that we are confusing the effects of biological activity upon the old-age lesions of rodents with the thing we fear, cancer” (Salzburg 1983, 64, 65; see also Salzburg 1980 and Tomatis, Agthe, and

Bartsch et al. 1978). There is also the claim that cancers found in rat autopsies are induced by test procedures that feed the rats at maximum tolerated dose.

Mitogenesis: Is Cancer Caused by the Test and Not by the Chemicals?

Proof that the tumors observed in animal cancer tests are due to the huge doses delivered at the MTD would be fatal to the no-threshold idea, for then the animal cancer tests themselves would be taking out only what they put in: cancer in, cancer out. Bruce Ames and Lois Gold, among others, claim that the chronic wounding induced by delivering heavy doses of a chemical promotes cancer by inducing cell division, a process called mitogenesis. As the animal is effectively wounded or poisoned, it grows replacement cells, a process known to increase chances of mutation and hence of cancer.

The theory was prompted by finds that while cancer is thought to be accompanied by mutation, alteration, or damage of DNA, a large proportion of chemicals that cause cancers in animal tests do not in fact damage genes in other tests. There are, as a paper by Ames and Gold is titled, “Too Many Rodent Carcinogens,” based on expectations flowing from knowledge of cancer and a belief there would be a great deal more cancer around if half the chemicals in the world caused this terrible sickness (Marsalis and Steinmetz 1990b, 10; Ames and Gold 1990a). Proliferation of cells with DNA damage is an important element in production of cancer in human beings. Cell proliferation is caused by chronic toxicity, by ionizing radiation, by chronic inflammation, and by hormones and viruses that cause infections that in turn lead to cells dying and hence to cell proliferation (Marsalis and Steinmetz 1990b, 10; see also Ames and Gold 1990b and 1991).

Support comes from Cohen and Ellwein (1990): “Chemicals that induce cancer at high doses in animal bioassays,” they assert, “often fail to fit the traditional characterization of genotoxins. Many of these nongenotoxic compounds (such as sodium saccharin) have in common the property that they increase cell proliferation in the target organ.” They argue that “the increase in cell proliferation can account for the carcinogenicity of the nongenotoxic compounds” (1007). Similarly, Daniel Krewski finds a “fairly strong” correlation between carcinogenicity and toxicity, which one would expect to find when test animals are being wounded by being fed the maximum tolerated dose (Marx 1990, 744). If the mitogenesis theory is correct, then rodent tests run at mitogenic doses are invalid as predictors of human cancer from exposures below toxic levels.

Ames (1990) lays it right on the line: “We think the current approach to cancer risk assessment is bankrupt” (A38). A reply by Richard A. Griesemer, who is head of the Division of Toxicological Research and Testing at the National Institute of Environmental Health, is: “There are only two definitive ways to tell whether chemicals have potential to cause

cancer. One is through epidemiological studies in humans....[T]he second way is to produce cancers in mammals" (Ames 1990, A38). In other words, we are not to experiment on people, so we have to do so on animals. But do we have to experiment on animals if the results are meaningless?

The most sustained attack on the Ames-Gold thesis (that the animal bioassay, by feeding animals the MTD, is itself causing the appearance of excessive rates of cancer) is by Perera. Her first argument is that a variety of international agencies, including agencies in the United States, have "adopted the general assumption of low-dose linearity for carcinogens—regardless of their presumed mechanism of action." The rationale is that there must be something to it since so many agencies have gone in the same direction. Why? Scientists usually do not argue from authority when they process a theory they can validate with evidence.

The reasons, according to Perera, are a general lack of understanding of the mechanisms of cancer causation, especially those termed nongenotoxic; a lack of agreement on a safe threshold level below which exposure would not be harmful to a diverse population; and "the desirability of preventing cancer through the use of testing and model systems, obviating the reliance on epidemiological data in humans."³ The question is whether regulation should be undertaken as a replacement for the existing lack of knowledge. That is exactly what she advocates: "In the meantime, EPA cannot ignore its responsibility to evaluate and control synthetic chemicals...since no one...has yet devised an acceptable alternative" (Cogliano et al. 1991, 607). I disagree.

The argument that if we don't regulate we'll count dead bodies is dead wrong. The predicted cancer rate at one in a million (even one in 100,000 or one in 10,000) is so low it will never be detected by epidemiology or any other method unless we know a lot more about the mechanism of cancer causation. "The problem with...risk assessments...based on animal tests," the Office of Technology Assessment's Michael Gough tells students, "is that their theories cannot be tested" (Gough, forthcoming).

False Positives or False Negatives

One way of looking at a test is to ask whether its error rate is low or whether there is a high proportion of false positives—those chemicals that do not cause cancer at the administered dose but are wrongly believed to do so (Fears, Tarone, and Chu 1977; Gart, Chu, and Tarone 1979). The opposite error, an overabundance of false negatives—those chemicals that cause cancer at the administered dose and are wrongly believed to be benign—can also occur. Governmental agencies set their requirements so as to minimize the chances of false negatives.

3. Perera (1990, 1644). See Ames and Gold's response to Perera in the same issue (Ames and Gold 1990b).

Statistical phrases—such as “low-dose extrapolation” and “low-dose linearity”—determine regulation of chemicals in the United States. They are not sideshows; they are center ring. In 1985 an interagency committee working for the Executive Office of the President published 31 principles for conducting quantitative risk assessments (U.S. Office of Science and Technology Policy [OSTP] 1985). Appropriately, some of the principles emphasized the limitations of scientific knowledge about chemical carcinogenesis. For example, the committee acknowledged that existing knowledge was not up to determining whether chemicals that caused cancer at high doses have a carcinogenic effect at lower doses (OSTP 1985, 10376). The document accepted that “no single mathematical procedure is recognized as the most appropriate for low-dose extrapolation in carcinogenesis,” but nevertheless endorsed linear extrapolation techniques: “uncertainties are involved in the use of any of the commonly employed extrapolation models, [but] models...which incorporate low-dose linearity are preferred when compatible with the limited information [available]” (10378). Why preferred? No doubt because they are conservative, though no one can calculate how conservative they are.

To extrapolate from rodents to people, a number of basic assumptions must be made, of which three are of primary importance: (1) the biology of these mammals is sufficiently similar to justify the extrapolation; (2) there must be an adjustment for the huge size of people compared to rodents; and (3) the vast differences in doses given to animals, which we have seen is essential to make rodent tests feasible, must be taken into account. After all, perhaps the greatest controversy surrounding animal cancer tests is whether a chemical given to rodents in huge doses would actually produce cancer at much lower exposure.

Where might one find false positives? Site is important. Research reveals that false positives are more likely to occur at sites with a high rather than a low number of spontaneous tumors (Fears, Tarone, and Chu 1977, p. 1941). It is also known that rare tumors are less likely to be false positives than are common ones. Thus knowledge of the spontaneous tumor rate is essential, especially if it is above 5 percent, because it then becomes difficult to tell the natural from the chemically caused tumor (Chu, Cueto, and Ward 1981, 259–62). The type of chemical also interacts with the type of animal; for instance, some rat organs, when exposed to chemicals, are pretty good predictors of tumors in mice, but mouse liver is a very poor predictor of tumors in rats. There is also a striking difference between chlorinated and nonchlorinated chemicals in regard to the sensitivity of mice versus other animals (Gold et al. 1989, 218; see also Marsalis and Steinmetz 1990a, 156).

The most important defect of animal cancer studies, as Freedman and Zeisel demonstrate, is that *the choice of statistical models overdetermines the results: in speculation regarding the effects of the low doses to which human beings are subject in nonoccupational exposures, the choices of statistical*

models produce outcomes that vary by hundreds, thousands, ten of thousands, and occasionally millions of times. Yet without knowledge of the biological mechanisms of cancer causation, there is no way of choosing among these models.

In the study of the grain fumigant EDB, for instance, the probability that an individual would get cancer from eating food in which tiny amounts of EDB were present varies over a million times, depending on the model (Hattis and Kennedy 1986, 65). Using the same animal data but different statistical models in regard to saccharin, to take a well-known but extreme instance, led to differences of some five million times (National Academy of Sciences 1978). As Table 1 shows, statistical models that depend on different assumptions predict harms that vary by a factor of 200 for DDT, 800 for dioxin, and 40,000 for aflatoxin, a naturally occurring toxic substance found in various foods, especially peanut butter.

With results this far apart using different models, and without a plausible biological reason for preferring one model over another, the results are no better than guesswork. No, they are probably worse; I doubt that educated guesses would produce results so far apart. Would the reader accept the result in anything that mattered if that result was anywhere between 100 and 40,000 times off and the reader could not know which? Even if there were no alternative sources of information, we would do better ignoring such empty data.

Echoing lines from literature, my students often ask whether animal cancer tests could not be considered second best and therefore better than nothing. I ask them whether it would be second best if they want to go from Berkeley to Oakland (they are contiguous) or Brooklyn to Queens or Minneapolis to St. Paul and are advised to travel via Beijing. Some alternatives are so bad they should not be dignified by the designation "nth best," but rather should be recognized as too bad to be used.

Table 1: The Impact of the Model on Low-Dose Risk Estimates

Substance	One-hit	Multistage	Weibull	Multihit
Aflatoxin	1	30	1,000	40,000
Dioxin	1	400	400	800
DMNA	1	700	700	2,700
Dieldrin	1	3	200	1,000
DDT	1	2	70	200

Notes: From Food Safety Council (1980, Table 4). The virtually safe dose is estimated (from each of the four models) as that dose giving a risk of one in a million. The column for the multistage model shows the ratio of the estimated from one-hit model, for each of the five substances. Likewise for the Weibull and the multihit (Freedman and Zeisel 1988, 11).

In retrospect, to be sure, we can see that heading due west from Spain wasn't such a great route for Columbus to follow if he wanted to get to India. But with the more limited knowledge of Columbus's day, he was justified in sailing. Had he continued, more to the point, he would ultimately have gotten there. This much cannot be said of animal cancer tests. They can be performed forever without improving our ability to predict cancer in human beings. Had Columbus been even 200 times off, he would have been on another planet.

Alternatives

What are we to do to protect people against cancer? Eat fruits and vegetables? Stop smoking? These behavioral changes help a lot. But our question concerns the effects of chemicals. Epidemiology would be best in that it is the most accurate in predicting rates of cancers from different levels of exposure to various chemicals. It is also morally appropriate in that human beings are tested to protect human beings. But there are shortcomings. We could collectively decide to accept the lesser sensitivity of epidemiological studies to gain their accuracy and reliability, and at the same time seek the mechanisms of causation that alone hold promise of effective intervention. But that would leave many people worried.

Currently, the alternative to epidemiology is animal cancer tests at the MTD with interpretation based on multistage models dependent on administering the MTD. The advantages are better control over conditions in the laboratory and the ability to get short-term results. But the defects are insuperable, for without knowledge of the biological mechanisms through which cancer is caused, there is no good way to interpret results. When all we know is that the potential link between exposure to a given chemical by rodents is dozens, hundreds, thousands, or tens of thousands of times away from human exposure, we know nothing of value. Animal cancer tests for the purpose of predicting the effects of small, intermittent, nonoccupational human exposures are not better than choosing at random. What, then, are we to do about the continuing stream of chemicals being used and concocted?

The demand either to use animal cancer studies or to find a substitute depends on the belief that very small amounts of chemicals cause significant amounts of damage to human beings and other living creatures. If large doses are required to cause large effects, epidemiology would do. The belief in the power of small doses is reinforced by the related view that there is no level below which damage does not occur.

If no level is low enough to be safe, then we would expect, with the introduction of so many new chemicals from the 1950s onward, that deleterious effects would show up in health statistics. But they do not. Neither a general cancer epidemic nor the once-feared asbestos epidemic has materialized. Once we control for cigarette smoking and hence lung cancer, for age (because cancer is largely a disease of old age), and for AIDS-related

cancers, overall cancer rates either are falling or have leveled off. Life expectancy has gone up decade by decade from the turn of the century.

This should not be surprising. The chemicals regulated are so small in amount and so far from people that they could hardly do much damage unless, through unknown mechanisms, very small exposures are doing significant harm. In a seminal study, Michael Gough (1990) showed that if everything the EPA claimed for its regulation proved out, the most that could happen would amount to a 1 percent or smaller reduction in cancer rates. The EPA criterion for regulation limits exposure to some 374,000 times less than a dose shown to cause harm in experimental animals (Gaylor 1989). The health benefits from limiting exposure to such tiny amounts are likely to vary from insignificant to nonexistent.

In an article titled "Information Value of the Rodent Bioassay," Lester Lave and his co-authors (1988) conclude that

[f]or almost all of the chemicals tested to date, rodent bioassays have not been cost-effective. They give limited and uncertain information on carcinogenicity, generally give no indication of mechanism of action, and require years to complete. Instead, some of these resources should be devoted to improving the sensitivity, specificity and cost-effectiveness of alternatives to the long-term bioassay, such as *in vitro* [literally, "in glass," i.e., in the tube] and *in vivo* short-term test schemes.⁴

I agree. I also agree with Salzburg that

[p]resently the lifetime feeding study pre-empts the field. As long as it is considered to be useful in detecting human carcinogens this very expensive and time-consuming procedure will continue to drain the toxicological resources of society. This report questions its usefulness and suggests that it is time to seriously consider the alternatives. (Salzburg 1983, 66)

There are alternatives. Some *in vitro* tests seek to detect damage to DNA within the cell nucleus. The Ames bacterial test detects mutagens. None of these *in vitro* tests predict human cancers (Goldberg and Frazier 1989).

4. Lave et al. (1988, 633). As the NMAS (National Medical Advisory Service) asserts: "After more than 15 years of utilizing the B6C3F1 mouse as a mainstay animal on which to perform cancer risk assessment studies, many in the scientific community are calling for a methodology review. At issue is whether or not using this particular test mouse results in inaccurate conclusions. It was specifically bred to be sensitive to cancer causing agents, and it has a high rate of spontaneous tumors (25 to 30 percent). The theory behind the creation of this type of mouse was that if the tests were being performed on a very sensitive animal, the data produced would be conservative, therefore setting very cautious levels of exposure. However, there is a groundswell of opinion today which recognizes that this test mouse has produced results that are overly cautious, and perhaps an inaccurate base upon which misleading risk assessments are being conducted" (NMAS 1992, 1).

Another of many possibilities is pharmacokinetics, in which quantitative mathematical modeling is used to estimate such things as how much of a given chemical gets to a particular kind of tissue and the absorption, metabolism, and distribution of the chemical in the human body (Wilson 1991). This is a theory-building exercise. How it can be related to theory testing is not yet decided. The conclusion has to be that while alternatives are promising, they have yet to fulfill their promise.

If epidemiology is too insensitive and animal cancer tests are invalid, the questions remain: What should be done to reduce cancer rates? How should the multitudes of chemicals be treated until we possess the knowledge to eliminate or restrict those that cause human cancers at low doses? Should our collective decision be to cut through the complexity by severe regulation? Would such a policy actually improve our health? What type of strategy is suited for our current ignorance? What do we actually know about the sources of carcinogenic chemicals to which human beings are exposed? The two categories of interest are synthetic carcinogens produced by industry and natural carcinogens produced by plants to ward off their predators.

It is no small matter to read a report by *Washington Post* science writer Malcolm Gladwell beginning with the headline “New Panel Questions Traditional Carcinogen Testing: Cancer Experts Respond to Growing Doubts about Massive-Dose Experiments in Animals” (8 September 1990). The article starts out by saying: “The nation’s top experts on assessing whether chemicals cause cancer say that traditional methods are sometimes misleading and that improvements or entirely new methods should be developed” (A5). At a meeting lasting three days, a National Academy of Sciences panel on risk assessment stated, in Gladwell’s words: “The use of rats and mice to test potential carcinogens—a practice that has formed the basis for regulating chemicals in the United States for more than twenty-five years—should be brought under sharp scrutiny. Many scientists said the studies are too unreliable and too inaccurate to form the basis for evaluating risks to humans” (A5). The panel was particularly critical of feeding animals at the maximum tolerated dose, because it was so much greater in proportion to weight than that to which human beings were subject.

Reform versus Revolution in Risk Assessment

There we have it: rodent studies are speedier but too inaccurate, while mechanistic studies are exceedingly accurate but very slow. Epidemiology lies in the middle on both counts: it is far more accurate than animal tests (being tried on humans at normal doses) but not accurate enough to detect effects at low doses, especially with smaller populations. My associate, Leo Levenson, recommends a return to the traditional method of controlling the consequences of toxic substances without making special cases out of those that might conceivably cause cancer. For this purpose he would accept the results of rodent cancer tests but would then apply a 100-fold

reduction from the level that caused cancer as determined by rodent bioassays. If there were knowledge or experience that led to greater concern, he would then multiply by 10 to reach a level 1,000 times below the animal test level. Were there less reason for concern a level only 10 times under might be applied.

The virtue Levenson sees in this traditional approach is, first and foremost, that it has worked well in the past. It also has other advantages: it is relatively speedy, so it can be applied to new chemicals, and it is relatively straightforward. This traditional “safety factors” approach would also end fascination with and stultification by vanishing small levels of chemicals.

Arguments Against the Use of Safety Factors for Potential Carcinogens⁵

The 1985 federal interagency committee that published principles for conducting quantitative risk assessment gave four reasons for continuing to treat animal carcinogens differently from other chemicals and rejecting a “safety factors” approach:

1. The Baseline for Applying Safety Factors (NOAEL or LOAEL) is too Sensitive to the Particular Experimental Design.
2. Safety Factors Fail to Use All the Information from Dose-Response Curves.
3. Safety Factors Imply Absolute Safety.
4. Safety Factors Imply Thresholds.

The funny thing about these arguments is that they all apply equally well to the quantitative cancer risk extrapolation methods that the interagency committee endorsed. Let’s look at how the interagency report presented each of the arguments in turn.

1. *Sensitivity to Experimental Design:* The interagency report argued that “[i]n spite of its common use, there are a number of potential problems associated with the safety factor approach. The observation of no treatment-related effects at a given dose may depend, at least in part, on the number of animals exposed at the particular level” (OSTP 1985, 10439). Thus the fewer animals you use, the harder it will be to see a statistically significant increase in tumors or other effects attributable to the chemical exposures. However, experimental design makes a great difference with the linear extrapolations as well. Regulatory agencies must establish protocols for the minimum number of animals and experimental conditions that can constitute an acceptable study no matter what technique is finally used to characterize health risks posed by the chemicals.

5. This section was written by Leo Levenson.

2. *Safety Factors Do Not Make Use of Information from Dose-Response Curves*: According to the interagency report, “[t]he determination of a NOAEL ignores the shape of the dose-response curve, even though it would seem that a curve that has a shallow slope in the experimental NOAEL region potentially represents a greater toxicological hazard than one that rises steeply in this region” (OSTP 1985, 10439). In other words, when you apply a safety factor to a dose that appears harmless, you are failing to make use of information from the relationship between higher doses and increased cancer rates. True. There is also no way to know whether a linear risk extrapolation technique can make good use of the high-dose relationships either. Since there is no “adequate biological rationale” for any extrapolation technique, it is hard to see how quantitative acrobatics that incorporate extra-high-dose information are likely to improve low-dose risk estimates.

3. *Safety Factors Are Arbitrary*: The interagency report complains that “there is no biological justification for the general use of any specific safety factor” (OSTP 1985, 10439). Safety factors are always arbitrary—but at least they are transparently arbitrary, and there can be an informed debate about what safety factor to choose without anyone maintaining the illusion that there is one “correct” margin of safety. By contrast, the linear extrapolation methods sanctioned by the committee contain a large number of equally arbitrary assumptions about how to use tests involving high chemical doses in animals to predict risks to people at much lower chemical doses, and the assumptions *are effectively concealed from lay people*. When a model result is announced stating, “Such and such a dose allows a maximum risk of 1–1 million,” most people have no idea what they are hearing.

4. *Safety Factors Imply Thresholds*: “Another important consideration that would argue against the use of a safety factor approach in cancer risk assessment is the fact that this approach assumes the existence of a true population threshold below which no adverse effects can occur. Even if the concept of the individual thresholds could be supported, the well-recognized genetic variability in the human population would effectively prevent the estimation of a general population threshold value” (OSTP 1985, 10439). In other words, the use of a safety factor would give people a false sense of security about potential residual cancer risks for sensitive individuals. By implication, quantitative risk estimation procedures are more honest in admitting that there could always be a potential risk, no matter how low the exposure. Is this so?

We agree that the government should never promise, and should never accept the responsibility, to eliminate all risk. The EPA and FDA can respond to the unanswerable questions “Is this standard absolutely safe?” or “Is there still a risk of cancer from drinking this water?” with the honest reply, “We think that to the best existing knowledge the chemicals in the water protect human health more than would their diminution or removal.” But there is no reason the regulators need to promise that the use of a safety

factor implies absolute safety. In contrast, the use of seemingly precise quantitative risk estimates gives the illusion that regulators know more than they really do about cancer risks, if any, from low-dose exposures.

Conclusions

Here are Levenson's and my conclusions regarding human safety standards for chemicals:⁶

- The less of a potentially toxic chemical people are exposed to, the less likely they will get sick from the chemical. This includes chemicals that may cause cancer. It would be better if we talked about carcinogenic or toxic "doses" of chemicals, rather than calling the chemicals themselves "carcinogenic" or "toxic."
- If the only evidence about toxic effects in a chemical is from high doses, there is no good reason to apply the effects at lower doses to people or other animals. Numerical extrapolations will all be statistical games; they cannot provide insight into real risks. These ideas hold true for all types of chemicals—both carcinogenic and noncarcinogenic. There is no guarantee that any chemical dose will be "absolutely safe." But we can make good guesses that a particular dose will be small compared to other potential disease factors.
- Congress's attempts to ban chemical carcinogens in the nation's food supply appear to stem from beliefs that chemicals could be easily divided into those that "cause cancer" and those that do not, and that the public health benefits of eliminating "cancer-causing" chemicals entirely had to be greater than the expense. In fact, the categories of "carcinogen" and "not carcinogen" are fundamentally flawed—many chemicals may help cause cancer at very high doses but would not cause cancer at lower doses. The cost of reducing chemical residues all the way down to nondetectable amounts turns out to be increasingly high as scientific technology for detecting tinier amounts of chemicals improves. And the public health benefits of eliminating tiny amounts of synthetic chemical residues have been called into question given the defense systems that people have, which work to prevent damage from low levels of natural chemical carcinogens to which ordinary people are exposed in their diets. Cost, however, is not the strongest argument against the criteria used to regulate chemical exposures in the United States today; the strongest argument is that there are no health benefits.

6. All of these principles relate to standards designed to protect *human* health. Additional factors must be considered if concerns have been raised regarding effects of chemicals on animals, plants, or ecosystems.

The result of adopting safety-factor criteria would be a reasonable level of protection in the light of existing knowledge, while greatly facilitating regulation. Our expectation (Levenson is a former EPA project director) would be far fewer Superfund sites, greater willingness to clean up the remaining sites, and greater capacity to clean up at the stipulated levels. Lawyers' fees and waiting lists would decline precipitously, and accomplishments would rise.

Cut the Gordian Knot: Reject Regulation Based on Weak Causes and Weaker Effects

As theories and evidence against the validity and predictive value of animal tests accumulate, as I am confident they will, a return to the traditional safety-level rule-of-thumb approach will become much more politically feasible. Nevertheless, given a choice, I would recommend a rejection of the existing risk-assessment approach. While acknowledging the importance of political feasibility, I would rather advocate the approach I believe best enhances human (and, for that matter, animal) health and safety.

My objection to a return to the time-tested safety-factor method is that it would be based, as Levenson stipulates, on rodent cancer tests, which I believe to be worthless in predicting cancer in human beings (or, indeed, other species). There is something wrong with recommending an invalid method.

Instead, I propose that the government of the United States use its resources and those in the private sector it regulates to enhance two approaches that show promise of developing a knowledge-based policy of cancer control—epidemiology and discovery of actual cancer-causing mechanisms in humans and other species.

Let's take another look at the weaknesses of epidemiology. Studies of human populations do not reveal possible harm from small doses of chemicals even if they exist. This weakness could be diminished by putting resources into doing larger studies and developing better statistics, but as long as regulatory action is conducted at terribly small risk levels, such as one in a million, the weakness would remain. Over time, mechanistic understanding is the only way of distinguishing those small insults that are harmful from those that the human body successfully defends against. What should be done in the meantime?

I propose that small harms from small causes be ignored until we learn how to identify them more reliably so that the harm done by generating so many false positives is exceeded by the health gains from discovering true positives. We do not give up much by ignoring small harms for two reasons: one is that they are small (or epidemiology would pick them up); the other is that there is no good reason, given the invalidity of animal studies, to believe that the models actually pick up real dangers except by accident. In fact, we are suffering those harms now, if they exist, because we do not know

their causes and, hence, are unable to take effective preventive measures. A desire to prevent cancers—even more, a desire to show the public that their government is trying to protect its citizens—is not the same as actually providing protection. The pretense of protection, however, is expensive not only in its loss of money but in its loss of the very health and safety it is supposed to defend. I will not be a party to a method of risk assessment and regulation that makes people sicker in the name of keeping them healthier, and that is exactly what is happening.

The other shortcoming of epidemiology is that it takes a long time, because the latency periods of cancers may be decades long. True, but not, I think, conclusive. A long time is a long time; if a disease takes so long, it cannot be striking people down at early ages, because the evidence would already have shown up. We could argue over whether preventing deaths when people are already quite old should be part of governmental policy. There is no need to do that, however, because short-term harms perpetrated by preventive measures are palpable, while long-term gains, in the absence of knowledge about cancer causation, are dubious.

While the long-latency-period argument is cogent for occupational exposures, it has much less force for the general citizenry exposed only to intermittent small doses. For the population at large, moreover, shorter-term evidence from epidemiological studies has value in that if workers exposed to comparatively large doses, even for only a few years or a decade, show no ill results, the probability that small and sporadic exposures would be harmful is low. In the same way, when we learn that symptoms decline or disappear when doses are reduced, this dose-response relationship gives us a pretty good idea that we can identify the cause.

Perfection is not for this world. People in industrial democracies, I am arguing, should accept the modest imperfections they know of while striving to do better, rather than the imperfections they can hardly imagine from utterly invalid animal tests.

My advice is to cut the Gordian knot of chemical regulation by requiring a standard parallel to that set for medical drugs; where evidence of efficacy in promoting health is properly demanded of medical drugs, so should evidence of harm to health be demanded for regulation of chemicals. Unless and until the existing reversal of causality (negative evidence that a chemical does no harm) is replaced by the straight standard—evidence of harm—regulation will continue to harm health in the name of protecting it.

It is not this or that lack of scientific knowledge that lies at the heart of our difficulties in protecting public health against harmful doses of chemicals. Nor is it the inevitable disagreements that are characteristic of science until the rare occasions when strong knowledge exists and is widely accepted. Rather, it is the demand of negative proof in regard to weak causes of minuscule effects that expands disagreements. If proof positive were required, and *de minimus* dangers ignored, existing knowledge would be far more adequate to the task.

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The End of Welfare and the Contradiction of Compassion

STEPHEN T. ZILIAK

What should be done about welfare? Some scholars, such as Mary Jo Bane and David Ellwood (1994), are calling for a replacement of the Aid to Families with Dependent Children (AFDC) program with, among other things, higher minimum wages and higher earned income tax credits. More radical and influential schemes have been put forward by scholars such as Gertrude Himmelfarb (1995a, 1995b), Charles Murray (1994), and Marvin Olasky (1995). They are making the plausible claim that in the absence of other market interferences, abolishing tax-financed payments in cash and in kind will induce a large increase in private charitable donations of the same. Work disincentives will be attenuated: personal and voluntary exchanges will build character among the poor.

Economic scholarship as old as that of Malthus seems to support such a promise from welfare abolition. And anecdotes from job bureaus, food stamp lines, child support agents, courts, and prisons suggest that the home inspection by the Ladies' Betterment League is relatively attractive. But in the face of such major institutional change, even the scholar who dodges the empirical test and scorns the power of the state is aching for historical evidence beyond the vivid anecdote. It turns out that welfare—"public outdoor relief," to use the older term—was abolished in large- and medium-size cities of the United States over a century ago. Yet the evidence showing the results of the reforms, which bulks large, has not been examined.

The tragedy is this: household-level evidence collected from the archives of a medium-size city suggests, when viewed in historical perspec-

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tive, that replacing public outdoor relief with private charity did not increase the wages and employment of the would-be recipients of public outdoor relief. Further, it hardly made a dent in alleviating the dependence of relief recipients (which, I hasten to note, is distinct from reducing the size of relief rolls). Following a sharp reduction in the amount of public outdoor relief given to the poor in the late nineteenth century, the private charities initiating the reduction became well financed and generous to the “worthy” poor. These charities approximated the public expenditures per relieved household that had obtained during the spree that motivated the movement. Ironically, the induced generosity thwarted the reformers’ objective of increasing self-reliance among the “worthy.”

As a strategy for encouraging self-reliance, in other words, the privatization of outdoor relief fared little better in the United States than public outdoor relief, before and after the emergence of the welfare state. Exits from the rolls by way of higher earnings occurred at the same rate as those from the AFDC program. In fact, the average duration of a spell on outdoor relief has changed little between the 1820s and the 1990s. The privatization of outdoor relief in the late nineteenth century, unlike the supposed effect of Beecham’s pills, did not “work like magic” to uplift weak character and human capital. The findings may surprise observers during the *n*th revival of concern about a dependency problem.

The Abolition of “Welfare” in Historical Perspective

The most ambitious attempt to privatize outdoor relief in America happened between the early 1870s and the 1900s, led by the Charity Organization Society. Ten of the largest cities abolished public outdoor relief, and many others, such as Indianapolis, sharply reduced the payments (Almy 1899–1900, 31; Mohl 1983, 35–50). In Brooklyn, for example, the annual cost of public outdoor relief in 1877 was ten or twelve dollars per household. The next year payments were cut by over half, and then were abolished in 1879, affecting more than 46,000 people (Devine 1898–99, 188).

Josephine Shaw Lowell ([1884] 1971) and Edward T. Devine (1898–99), both leading charity organizers, examined in Brooklyn ten years of aggregate data on indoor relief and on private outdoor relief supplied by organized charity. Finding no appreciable increase in expenditures or in caseloads after abolition, they concluded, fifteen years apart, that “the abolition of the outdoor relief in Brooklyn resulted in a real improvement in the status of the very poor” (Devine 1898–99, 188) and “There could scarcely be a stronger proof that the stopping of out-door relief does not cause the suffering that is anticipated ... the need supplied by public out-door relief is in fact created by it” (Lowell [1884] 1971, 62). Apparent success in Brooklyn and then in Philadelphia inspired the Indianapolis Charity Organization Society to lobby for abolition of public relief (Associated Charities 1886, 46–47).

Yet the “real improvement” was not properly demonstrated, despite

Lowell's declaration of "proof." Their findings of little increase in indoor relief or the outdoor relief of one or two organized charities after abolition do not demonstrate that the wages and employment of would-be recipients of public outdoor relief had increased. What did happen to the 46,000 recipients of public outdoor relief? The "improvement" hypothesis has low power against important alternatives, such as death by starvation. After all, Sir Charles Trevelyan, a leading organizer in England, regarded "deaths by starvation as a discipline, a painful one admittedly," he said, "but nevertheless a discipline" (Hart 1960, 99). The American and English realities were not in fact so horrific. But the data examined by Lowell and Devine reveal little about the "creation" of "need," and reveal nothing about the level of material well-being and its enabling sources after abolition.

Although the reformers were inspired by Thomas Chalmers, a political economist who had organized private charities in Scotland in the 1820s and 1830s (Watson 1922, 33–38), they did not anticipate the generosity that their reform would induce. However, evidence found in the annual reports of the charity organization societies in Indianapolis (ICOS 1890, Box 5) and in metropolitan England (Humphreys 1993, 16) suggests that some 60 to 70 percent of the 46,000 in Brooklyn would have been "worthy" of private outdoor relief, and would have accepted it. In other words, many studies failed to account for the fate of thousands of individuals. Still, Allan Nevins ([1927] 1969), a noted historian, would later popularize the view of Lowell and of Devine: "Official provision for the poor ... was rude, unsystematic and wretchedly administered. One great city after another furnished outdoor relief on the most lavish and careless scale, yet to the surprise of observers no increased demand fell upon private or public relief agencies [following abolition in Brooklyn], and no unusual suffering appeared" (327).

The enthusiasm for private charity in the battle against dependence is now quite alive. Gertrude Himmelfarb, whose new book (1995a) has attracted the attention of policymakers, has essentially called for a revival of the charity organization movement. Himmelfarb would like to follow the spirit of the New Poor Law (Himmelfarb 1992, 189–90; Himmelfarb 1995a; Webb and Webb 1909; G. Boyer 1990). She speculates that a "solution to the problems that beset us" is a Victorian attack on "moral pathologies" like "welfare dependence," promising a "fighting chance" of undoing the "culture of dependency" created by the welfare state (Himmelfarb, 1995b). "If we seriously want to discourage dependency, criminality ... and the like," says Himmelfarb, "we have to do more than create a more rational system of economic and legal incentives.... We have, in short, to relegitimize morality as the basis of social policy and restore the language of virtue and vice."

Although the economic historians Mary MacKinnon (1987) and Robert Humphreys (1993) have studied quantitative aspects of the crusade in England, economists have not reconsidered the reforms in the United States, let alone at the micro-level. The reforms of the late nineteenth century provide a natural experiment. The outcomes of the reforms are richly

documented in the archives of several prominent charities in Indianapolis and offer a unique opportunity to study the labor market dynamics of the recipients of outdoor relief under a private system.

The Contradiction of Compassion: A Model of Futility

Although it has enjoyed continuous usage since the eighteenth century, the simple economics of poor relief is piecemeal and contradictory. The problem is that the theory ignores the long-run effects on the labor market produced by the “crowding-in” of private charity. Private charity has been tacitly or expressly described by observers on the left and on the right as *ephemeral*, an immaterial addition to the budget of a poor person. Liberal and socialist scholarship since Dickens’s *A Christmas Carol* (1843) has figured the middling classes a crowd of Scrooges before Marley’s Ghost. Tiny Tim suffers in their stinginess, which is taken to be a *prima facie* case for governmental intervention. On the other hand, conservative scholarship has elevated the Ladies Bountiful and the Andrew Carnegies, who, when left alone, share generously in their bounty but whose beneficence does not produce negative effects.

And yet private charity cannot be in one time and place both small and harmful and large and unarmful. Modern economists (and humanists) are telling both stories, but each story harbors a fundamental contradiction in theory. The main problem is that theories of work disincentives and theories of the finance of poor relief are divorced, producing on the one hand counterfactual estimates of the labor supply of actual recipients of welfare that do not control for the receipt of private charity in the absence of welfare (Danzinger, Haveman, and Plotnick 1981, 975–80, 996; Moffitt 1992, 9–19). Sheldon Danzinger, Robert Haveman, and Robert Plotnick (1981) report that participation in the AFDC program reduces labor supply from one to ten hours of work per week. This corresponds, Robert Moffitt (1992) found, “to percentage reductions of 10 to 50 percent of nontransfer labor supply levels” (16). The counterfactuals were computed by assuming, with some reservation, a “zero-transfer” (Danzinger, Haveman, and Plotnick 1992, 996) counterfactual, allowing “no change in private transfer activities relative to the level existing with the [public] programs in place” (1019; Lampman and Smeeding 1980). The point is that the percentage gains in labor supply in a world without welfare would be lower, much lower in fact, if a more likely value of private charity entered the counterfactual budget constraints.

Theoretical models of the relative efficiencies of private charity and public relief, on the other hand, have focused entirely on finance, omitting the labor market (Warr 1982; Roberts 1984; Bergstrom, Blume, and Varian 1986; Steinberg 1987; Steinberg 1989, 143–56; Andreoni 1989; Schiff 1990). Theodore Bergstrom, Lawrence Blume, and Hal Varian (1986, 43),

for example, speculate on the efficiency of private systems, but they do not mention the labor market. In *Capitalism and Freedom*, Milton Friedman (1962) nearly connects the labor market with the idea that public relief crowds out private charity: "One of the major costs of the extension of governmental welfare activities has been the corresponding decline in private charitable activities" (191). Having listed the usual problems associated with the voluntary provision of public goods in "large impersonal cities," he argues that "so far as possible the [government antipoverty] program should, while operating through the market, not distort the market or impede its functioning. This is a defect of price supports, minimum-wage laws, tariffs, and the like" (191). Friedman, however, did not go far enough.

Private charity, then, is ignored in labor economics, and the effect of charity on labor supply is ignored in public economics. Yet the futility of privatization as a means of increasing self-reliance is evident. (The technical issues and their modifications here are more fully explained in Ziliak [1996a, 4–9].) The problem with Russell Roberts's model and with other models of crowding is that they assume a recipient of poor relief who derives utility merely from her own consumption, financed out of poor relief, and for which she does not even consider laboring. She does not make decisions to join the employed labor force or to vary her work effort when the relative price of staying with her children or looking for work has changed. But the heart of the welfare matter, going back to the Old Poor Law, is the pulse of labor (McCloskey 1973, 419–27; G. Boyer 1990, chap. 1). The contradiction can be observed in a familiar enthymeme:

**Public outdoor relief reduces labor supply and encourages dependence;
Public outdoor relief largely crowds out private charity;
Therefore, abolishing public outdoor relief increases labor supply and
encourages self-reliance.**

The enthymeme is a reasonable description of beliefs held by eminent economists—among them, nowadays, Milton Friedman—and by scholars such as Charles Murray and Gertrude Himmelfarb. The Charity Organization Society deployed the enthymeme for lobbying purposes when it did not collide with their attacks on lavish, "sentimental" charity (Gurteen 1881, 3–5; Watson 1922, 33–35; ICOS 1886, 43–46; Almy 1899–1900; Devine 1898–99). To be sure, the explicit premises are in isolation sound pieces of price theory. But price theory suggests that all income subsidies, whether financed publicly or privately, reduce labor supply and encourage dependence. Despite a long history of practice, the two premises cannot be properly viewed in isolation in long-run analysis. The usual analysis does not produce an equilibrium. It implies that when public relief is abolished, private charity is crowded in largely—in Roberts's model, dollar for dollar—and yet the private transfers are said to be immaterial to the labor supply of the recipients. This is the contradiction of compassion.

When private charity is crowded in, the monies find their way into the

hands of the poor, whose unemployment and destitution signal their worthiness to receive help but whose industriousness and ability to make other decisions are put into question by their very acceptance of help. The induced generosity may line the pockets of a preacher and a reformer instead of the pockets of a ward boss, but there are no theoretical reasons for thinking that the material standards of relieving the “worthy” change substantively in the context of institutional replacement. Donor demand for the public good may shift downward during the institutional replacement, adjusting donation behavior to reflect a change in attitude about “worthiness,” yet leaving total expenditures per relieved household unchanged. The resolution of the contradiction is, therefore,

**abolishing public outdoor relief crowds in private charity,
which hardly increases labor supply or promotes self-reliance,**

so long as time away from wage labor is a normal good, or so long as job search is productive, among the “worthy” who receive help. A first approximation of the model of futility, formulated in the context of an economics without personal relations, states that when public outdoor relief is sharply reduced, private charity is crowded in, and the average length of a spell on outdoor relief is not much diminished.

The model of futility can be complicated by assuming donors derive utility from their own donations (Steinberg 1987, 1989; Andreoni 1989) or by assuming the population of donors is smaller than the population of taxpayers (Bergstrom, Blume, and Varian 1986). Analysis of labor decisions, in turn, can be complicated by a formal treatment of family labor supply or of search activity (Burdett and others 1984; Blau and Robins 1986), and the analysis of labor supply can be continuous or discrete. But the simple inversion of Roberts’s model into a model of crowding-in, when joined with the always obvious implication that subsidies of time away from wage labor increase its demand, takes one a long way toward explaining data on the first privatization movement.

How Great Was the Crowding-in Effect?

In the literature concerning the measurement of crowding-in and crowding-out, there is a confusion that continues to exert a large effect on beliefs about the economics of poor relief. Richard Steinberg (1989, 150) surveyed the econometric literature on crowding-out and found regression coefficients of $-\$0.05$ to $-\$0.30$ in nine cross sections and time series since the Second World War. He (1989, 155) concluded from the survey “that when a local government reduces its provision of social services, it cannot count on the nonprofit sector to replace a very large part of these services.” His conclusion, shared by many economists, is misleading; it is at least inaccurate as a historical fact. The studies cited did not estimate crowding-in effects, because the samples were not drawn to measure the response of private charity after a sharp reduction in public relief expenditures.

The studies did not estimate the size of crowding-out that follows a major institutional change, and yet the theories of crowding, including Steinberg's (1987, 1989), are relevant only in a context of major institutional change. Roberts (1984, 142) is explicit on this point: "the model... predicts that private charity first became negligible when government first intervened in a significant way in the charity market." Although Roberts (1984, 142) is mistaken in suggesting that the 1930s marked the first "significant" intervention—after all, observers in the 1870s, economists among them, thought the existing interventions warranted a privatization movement—the implication for empirical investigations of crowding-out is clear. So, too, for crowding-in: an upper bound on the crowding-in effect is best measured when government first *stops intervening* in a significant way. And yet the coefficient of $-.030$ reported by Burton Abrams and Mark Schmitz (1984, 566), widely cited as an upper bound on the crowding-out effect, was found in a nationwide cross section of private donations and state and local welfare payments in 1979, a year of ordinary activity.

I chose to study Indianapolis because it likely provides an upper bound on the labor-market success of the privatization movement; that is, an upper bound on the speed and scale of the transitions of the "worthy" poor from dependence to self-reliance following a major institutional change (Ziliak 1996a, app.). Public outdoor relief was not abolished in Indianapolis, but it was reduced to a low level, falling in real terms in four years from \$50,000 to less than \$7,000 (Ziliak 1996a, fig.1). Public outdoor relief per relieved household in 1877 was equal to about three weeks wages of an able-bodied common laborer. By 1885, public expenditures per relieved household were 16 percent of the earlier level (Ziliak 1996a, table 1).

Charity was not dead to begin with. In 1876 Indianapolis supported twelve private charities. Nevertheless, twelve more were established between 1877 and 1885 (*Indianapolis City Directory* 1885, 22–45), and between 1885 and 1895 twenty more sprang up (*Indianapolis City Directory* 1895, 47–49, 58–59). A sample of the names suggests the diversity of services offered and populations served: the German Ladies Benevolent Society, the Ladies' Hebrew Benevolent Society, the St. Boniface Benevolent Society, the Socialistic Sick Benefit Society, the Alpha Home for Aged Colored Women, the Woman's Relief Corp., and the German Lutheran Orphan's Home.

Middle- and upper-class donations to the organized charities did not alone replace 1876 public expenditures, but clearly outdoor relief in the early 1880s was largely financed and administered by voluntary efforts. That is, total expenditures on private charity are largely undercounted by the sample examined here. Accounting for the expenditures of some thirty-five other private relief societies and the expenditures of the many churches and individual families may reveal approximate replacement. But full replacement in total expenditure would be an odd event. After all, the reforms were retailed in a rhetoric appealing to desert as an ethical category. A line had to be drawn between "worthy" and "unworthy." Indeed, the conflation of

need and desert as ethical categories (S. Gordon 1980, 94–114) justified the policy of helping only those who after thorough investigation were found to exercise industry, thrift, temperance, and honesty. Donor demand for outdoor relief in total had decreased because the well-being of the “unworthy” was hardly entering positively in the utility functions of the donors.

Elsewhere I have shown that the central predictions of the model were borne out: the crowding-in effect was substantial in total expenditure, and even the most prominent of the organized charities became relatively generous (Ziliak 1996a, fig. 1 and table 1). As the public expenditures per household were taken to the relatively low level of \$3.40 per year by 1890, private expenditures rose to \$15.10, ironically approaching the former “lavish” public expenditure in Indianapolis and exceeding that in Brooklyn. The crowding-in effect, measured by real payments of outdoor relief per household, was after a dozen years nearly dollar for dollar. Private charity, then, probably contributed to labor-market dynamics by magnitudes not unlike those of the public relief it replaced.

Spells on Outdoor Relief in Historical Perspective

I drew a sample of new entrants to relief rolls from the caseworker manuscripts of the Indianapolis Charity Organization Society. The new entrants span January 1, 1881, through early April 1881. The sample was drawn to make a strong case against the predictions of the model of futility: real relief per household was at a minimum; labor demand was relatively strong; and the cooperation of the township trustee and the organized charities was at its peak. The average duration of a spell on outdoor relief for the 1881 entrants, therefore, is probably a lower bound for Indianapolis—and probably for the nation—in the early 1880s (Ziliak 1996a, app.).

The average duration of a completed spell was eight months, and the average duration of all spells was ten months. Half the spells were completed in one month. Sixteen percent of all spells lasted one year or more.

Whether the spells were short or economically important depends on one’s frame of reference. An ideal test of the hypothesis that privatization was futile would contrast the probabilities that recipients moved between the states of “out of work” and “employment” before and after the sharp reduction in public outdoor relief. Such a test is not possible with the Indianapolis data, because of insufficient “before” data. One of the innovations of organized, “scientific” charity, after all, was to introduce systematic record collecting for all applicants and recipients (Watson 1922, 118–36; P. Boyer 1978, chap. 10; Katz 1986, chap. 3). Although no other micro-level studies of the late nineteenth century exist for comparative purposes, one can compare the Indianapolis findings to studies across time and space (see Table 1).

Upon inspection of Table 1, it becomes evident that something is amiss with the conventional stories about dependence. The average duration of a spell on outdoor relief has changed little since the 1820s. But constancy in

**Table 1. Average Duration of a Spell on Outdoor Relief
in the United States**

Source	Data	Geographic Scope	Average Duration of a Spell (in months)
Hannon (1984)	Yates's sample of people receiving public outdoor relief in 1823; all family types; stock sample	New York State	5 (New York City); 9 (Rest of State); 7 (New York State) (All spells)
Ziliak (1996a)	Charity Organization Society and township trustees, 1881–1903; oversamples seasonal distress; flow sample	Indianapolis; lower bound for the nation	
	All family types		8 (Completed) 10 (All)
	Single mothers		7 (Completed) 13 (All)
Persons (New York, State of [1914])	The Charity Organization Society Association for Improving the Condition of the Poor Brooklyn Bureau of Charities, Widowed Mothers, 1914; stock sample	New York City	18 (All?) 24 30
Blank (1989)	SIME/DIME, 1970–76; single Mothers on AFDC; flow sample	Seattle and Denver	13.3 (Completed) n.a. (all)
Tienda (1990)	Urban Family Life survey, 1986–87; Single Mothers on AFDC, 1963–87, White and Mexican; stock sample	Chicago	“Less than a year” (completed) About 24 (all)

Source: Ziliak 1996a, table 3.

Note: Average durations in stock samples, when divided by two, are comparable with those in flow samples.

the duration of spells is predicted by the model of futility: a major replacement of public relief or of private relief (such as that in the 1930s [Roberts 1984]) will not have much effect on the labor-supply decisions of the recipients under the new institution.

Did Privatization Increase Transitions to Self-Reliance?

The length of spells matters, but the manner in which recipients leave the rolls is also important. Increasing wages and employment played a critical role in the success of the privatization movement. Encouraging self-reliance meant getting the worthy poor off the rolls and more fully into the employed labor force, “raising the poor from a condition of dependence” (ICOS Minutes, 1880, 6). In the absence of public outdoor relief, private charity was to provide the leavening. A high incidence of exits by way of higher earnings would affirm contemporary and later declarations of “improvement” following the change in policy. Table 2 reports some characteristics of households at the beginning and end of completed spells.

Fifty-one percent of the households had earnings at the beginning of a spell, and 36 percent of those households left the rolls with higher earnings than they had during the spells. Is the exit rate by way of increased earnings high? Is it an exemplary figure? In historical perspective it appears not. The economist Rebecca Blank (1989, 258) found in 1970s Denver and Seattle that 31 percent of all single mothers left AFDC rolls with higher earnings—10 percent because the earnings of others increased. In their study of exits from AFDC using the twenty-one-year Panel Study of Income Dynamics, Bane and Ellwood (1983, 57) found that 32 percent left the rolls with higher earnings—7 percent because the earnings of other family members increased. In a survey of research using a wide range of methods, Bane and Ellwood (1994, 59) argue that about 40 percent of all spells on AFDC end because of an increase in earnings.

An analogy may illuminate the point. The marginal tax rate on the earnings of an AFDC recipient in Blank’s sample was about 67 percent. For each dollar earned, \$0.67 was taken away from the cash grant. If a family was

**Table 2. Transitions of Households Entering Outdoor Relief Rolls in 1881
(71 Completed Spells)**

	% of Households with Earnings at Entry	% of Households Having Higher Earnings at Exit
Head	30	14
Spouse and children	21	22.5
Head, spouse, and children	1	4

Source: Ziliak 1996a, table 4.

unfortunate enough to qualify for the program, the tax made it more difficult to leave home for honest employment (Moffitt 1992, 10, 13). The tax rate returned to 100 percent in 1981, relevant for half of the sample of Bane and Ellwood (1983, 10). For women and children trying to earn a living, the 1880s equivalent of the discouraging tax was having an ill or injured man in the house. Although wives and children were the post-spell breadwinners three times more often than men, 64 percent of all households did not leave the rolls with higher earnings. Nearly half the men were ill, or remained ill, at exit. It is difficult to declare with reformers and later observers that the evidence reveals an "improvement in the status of the very poor."

A Dollar Was a Dollar

The old enthymeme on poor relief was shown to be contradictory in theory, and the resolution of this conflict has empirical support in a large crowding-in effect and in the constancy of spell lengths. Exits by way of higher earnings, moreover, have been shown to be ordinary in historical perspective.

The implicit premise in the enthymeme, of course, is that private charity is personal and thereby wiser. This was indeed a premise of the charity organizers, who expected the private exchanges would help create a community in which the subtler habits of enterprise and application would rub off. In lobbying for the abolition of public outdoor relief, the Indianapolis Charity Organization Society argued that "the uplift would be great, as the cases of need would be treated with kindness, sympathy and the personal touch" (ICOS 1886, 46–47, Box 5).

The replacement of "sentimental" (Gurteen 1881, 5) philanthropy with ecumenical cooperation and scientific casework can be seen as an attempt to avoid the futility of mere privatization. Scientific charity, if secular and ecumenical, could in theory accomplish more than a mere shift of the burden of dependency from public to private charities. It could secure independence "by bringing the richer and poorer classes into closer relations with each other by means of thorough house-to-house visitation" (ICOS Minutes, 1880, 61; Gurteen 1881, 3–6). The plans were not borne out by the experiment but not, as Michael Katz argued, because their "method taught dependence."

It was in part a problem of identity. Few people doubt that work, reciprocity, prudence, and obligation are sustained or cultivated by gift relationships in well-functioning social groups. Some readers will be reminded of their own development during college, which their parents or relatives helped finance. But the "friendly visitors"—middle- and upper-class women who made the visitations—were not able to establish such bonds (P. Boyer 1978, chap. 10; Montgomery 1993, 71–83). One reason, as the social historian Michael Katz points out, derives from a contradiction in the movement itself: the desire to control the behavior of the township trustee (Katz 1986, 67; ICOS Minutes, 1880, 1–13). In Indianapolis, recipients could not distinguish private help from public authority. In fact, agents from the

township trustee's office and from the Society sometimes interviewed a family together, as the following excerpt illustrates: "Feb. 11, '81. Visited. with Mrs. Hicks of Tp. T's office..." (FSA, bound volume 1201, Rec. 1046). During the decade of the 1880s, the Society recommended half their "worthy" applicants get relief from the trustee, which they did (ICOS 1890, annual report, Box 5). The effect of gaining cooperation with the public authorities was reinforcement of the policing aspects of relief, not of the nurturing aspects of voluntary relationships (cf. Montgomery 1993, chap. 2).

Despite Octavia Hill's advice "to know [the poor]—to enter into their lives" (Bremner [1960] 1988, 95–96), the charity workers and the poor did not work, worship, play, sleep, study, or live together. Oscar McCulloch, for example, was a leading intellectual in the city, who attracted to his lecture series and to his pulpit at Plymouth Church such luminaries as Henry George, Matthew Arnold, Mary Livermore (the suffragist), and Henry Ward Beecher (Weeks 1968, 105). Among his Indianapolis friends, McCulloch could name President Benjamin Harrison and Eli Lilly, regular donors to the Charity Organization Society (68). The general public was invited to McCulloch's cultural events (102), but it seems clear that the poor served by McCulloch's charities did not attend. The poor apparently did not attend his church, either (94–97).

The friendly visitors were critical about fashion and cleanliness, especially of women, and they ridiculed the English usage of foreign-born recipients. "Mrs. N," for example, was described by an unidentified visitor as "a strong healthy looking woman but of slovenly and draggled appearance—talks a good deal" (FSA, bound volume 1201, Rec. 1076). But difference was shaped in both directions:

Mrs. [G], on inquiry, at once admitted that [Mr. F], a young man, had "boarded" with her for 4 [years] past. He is a carpenter, and has a mother living on Linden St. which "he calls his home." He is now out of work and has been "at home" for a week. Claims that he pays her \$3.00 pr. week for "board," and owes her nothing. Showed a note from him, in which he admits he has no money and can't help her any now. Has learned that she had been obliged to call on the charitable societies—hopes she will not longer degrade herself by asking assistance of these "hypocritical femail [*sic*] societies..." & c. She is unable to work now, according to Dr. Ritter's statement, but she was made to understand why no aid could go into the family. She played the "brazen" all the way through. Denied anything criminal. Challenging proof. Admitted that brother Alonzo had made her house his home most of time since Christmas.... There is no good reason why [Mr. F] and Alonzo should not help this woman.... Had a regular fire of questions and responses covering the whole matter, which proved very interesting to the visitors but not so to the visited. (FSA, bound volume 1200, Rec. 797)

Only one recipient in the sample was noted for being thankful for help (the Indianapolis Benevolent Society helped the individual's family move from Indianapolis to Chicago [FSA, bound volume 1201, Rec. 1026]). Applicants were not by and large ungrateful; rather, they were disconnected and saw the visitors and paid agents as obstacles to clear in a usually desperate, if only transitory, search for subsistence. Indeed, more than half the recipients were on and off the rolls in a month, having one, two, at most three meetings, hardly enough time to establish productive friendships, were friendship possible.

A dollar was a dollar. Personalization did not tighten moral bonds and thereby uplift earnings ability. The implicit premise of the old enthymeme—that private charity is more personal and thereby wiser—does not find empirical support in the privatization movement. This finding contradicts the views put forth by Himmelfarb, Olasky, and others. And yet these authors have not examined the micro evidence on the legacy of the privatization movement. Much of the extant research on welfare has suffered from a “Malthusian vice”: beginning with Malthus, there has been a propensity for social scientists to judge the performance of one institutional arrangement without carefully investigating its historical or likely substitutes (Ziliak 1996b).

Coping with Dependence

Scott Gordon (1980, 10–12) once remarked that societies would do better by replacing the word *solve* with the word *cope* when faced with choices in political economy. Gordon's point is that the search for a solution—algebraic or otherwise—is illusory. The episodic attacks on poor relief over the past four centuries make this point vivid.

The stories of material discontinuity between the high tide of private outdoor relief and the emergence of the welfare state are by several measures unsound. The sometime financial and organizational efficacy of the private charities in a medium-size city suggests that poor relief, like the lighthouse (Coase 1990), has flourished in the absence of a large governmental provision of similar services. Despite the use of brutish imagery in prose, the city of Indianapolis did not make “worthy” applicants struggle independently as fit by nature. (The treatment of the “worthy” in poorhouses, orphanages, workhouses, insane asylums, institutions for the “deaf, dumb, and blind,” and in houses of refuge, not to speak of the treatment of the “unworthy” poor, is another story altogether.)

On the other hand, the thesis that dependence is a welfare-state problem that can be substantially reduced by privatization and by a moral reformation of a late Victorian sort, though fashionable in politics and news editorials, is not supported by a historical referent. Nor is the thesis supported by economic theory. The local finance and administration of poor relief were dressed in scientific and moral rhetorics, but the moneys entered the budgets of recipients just as other unearned moneys from strangers.

Severely reducing public outdoor relief per relieved household did not raise earnings profiles above a level that compassionate people could accept without amelioration. Private compassion made a contribution to subsistence but did not bring more or better investments in human capital. Private charities did not help alleviate workaday constraints such as caring for children and the sick. In the city where the movement was likely to succeed, privatization, though personal, local, organized, and scripted in a language of virtue and vice, failed to increase self-reliance among the “worthy” poor.

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From Gold to the Ecu

The International Monetary System in Retrospect

LELAND B. YEAGER

Our present international monetary system evolved from the international gold standard, to which, even nowadays, some reformers would have us return. It is not a standard hallowed by the ages. Although gold and silver coins appeared in ancient times, widespread standardization of money units as weights of gold goes back only to the nineteenth century. Money in medieval Europe was a hodgepodge of gold, silver, and base-metal coins of various degrees of fineness issued by a great variety of national and local rulers and traded at fluctuating rates of exchange. As standardization gained ground, silver was probably a more important monetary metal than gold. Fiat paper currencies were far from unknown, as in Sweden in parts of the eighteenth century and in the American colonies before and during the Revolutionary War.

Great Britain had traditionally been on the silver ("sterling") standard. It eased into a bimetallic system after 1717, when Sir Isaac Newton, as Master of the Mint, recommended a particular value at which to fix the guinea gold coin in silver shillings. Britain was inflated off its metallic standard, leaving Bank of England notes as irredeemable standard money, from 1797 until 1821. When redeemability was restored, the one-pound gold sovereign, first minted in 1817, became the standard unit.

The United States officially adopted bimetallism with the Coinage Act of 1792. Silver was in fact the dominant metal, as reflected in the very word "dollar," the widely used name for the Spanish piece of eight reales, one of various large silver coins that were popular in Europe and that had first been

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minted in Bohemia in 1519. (The Continental Currency of the American Revolution had been denominated in “Spanish milled dollars.”) Silver continued as the effective standard through the operation of Gresham’s Law because the 15:1 relation between the values of gold and silver specified by the 1792 law clashed with the $15\frac{1}{2}$:1 bimetallic ratio adopted by France under Napoleon. That discrepancy lasted until the coinage acts of 1834 and 1837 cut the gold content of dollar-denominated coins by 6.2 percent, thus changing the U.S. bimetallic ratio to 16:1, reversing the discrepancy with the outside world, and effectively switching the country from a silver to a gold standard. Legally the system was still bimetallic. From the Revolutionary War until the Civil War (with a partial exception during the War of 1812), the U.S. government issued only coins but no paper money. The issue of banknotes was left to privately owned banks (and, in a few states, to state-owned banks).

Gold discoveries in California and Australia around midcentury tended to cheapen gold relative to silver and, through the operation of Gresham’s Law, to turn bimetallic standards into effective gold standards. Some economists worried about a serious loss of the purchasing powers of gold currencies, and the French economist Michel Chevalier even recommended a switch to the silver standard (Jevons [1884] 1964, 101). In 1865, France, Belgium, Switzerland, and Italy, and later Greece, formed the Latin Monetary Union in hopes of promoting international standardization of currencies on a bimetallic basis.

The Civil War in the United States inaugurated a regime of irredeemable paper money that lasted until January 1879. Gold and silver coins were still issued, but they traded at a premium against the greenback dollar, which became the usual monetary unit except in the Pacific Coast states. Meanwhile, laws of 1873 and 1876 discontinued the unrestricted coinage of silver dollars and revoked the limited legal-tender power accorded to the somewhat heavier silver trade dollars. These changes meant that a return to convertibility of paper money would no longer restore bimetallism in the United States. Rather, it would establish a gold standard with subsidiary silver coinage.

Around 1873 silver began depreciating against gold on world markets. The newly established German Empire was selling off silver to acquire gold reserves, and silver discoveries in the American West were contributing to its depreciation. The Netherlands and the Scandinavian countries switched from silver to gold standards in the 1870s. The members of the Latin Monetary Union discontinued the free coinage of silver, fearing that the inflow of silver into their mints, which had offered an unlimited market for silver, would inflate their money supplies. Their bimetallism became a “limping” standard, a de facto gold standard. Early in 1879, Austria-Hungary, whose paper gulden had been inflated off its traditional silver standard, saw the quantity of silver formerly defining the gulden sink in value below supposedly equivalent coins and banknotes. Austria and

Hungary feared an inflationary inflow of silver into their mints and so closed them to the free coinage of silver. For the next thirteen years the gulden remained a paper currency floating in midair at a higher value, in relation to gold currencies, than the silver-bullion content of coins.

The actions of Germany, Scandinavia, the Netherlands, and the United States (with its return to redeemability in 1879) thus led a widespread move onto the gold standard from the 1870s. Austria-Hungary moved onto a gold standard in 1892, introducing a new unit, the crown, equal to one-half of the old gulden. Its gold content was set in close correspondence to the foreign-exchange quotation of the gulden at the time of transition. (Actually, Austria-Hungary moved onto a gold-*exchange* standard: paper money was not unconditionally redeemable in gold coin, but the Austro-Hungarian Bank stabilized the crown's exchange rate against gold-standard currencies through market interventions.) Russia, by piecemeal steps culminating in 1897, adopted a gold standard at a gold content corresponding to the then prevailing exchange rate of the paper ruble (which, like the gulden, had earlier been a silver unit). After a transitional period of floating from 1893 to 1898, India switched from a silver standard to a gold-exchange standard; official foreign-exchange operations pegged the rupee to sterling.

To judge from parliamentary and academic discussions and pamphlet literature in Austria-Hungary and Russia, the chief motive for moving onto the gold standard was not so much unsatisfactory performance of the earlier monetary system as, rather, one of prestige: the gold standard was considered the most modern monetary system, the one most appropriate for advanced countries (Yeager 1984).

This argument from modernity testifies to the absence of a long tradition behind the gold standard. As a truly international system it prevailed for only a few decades up to 1914; its beginning dates somewhere between 1870 and 1900. The Gold Standard Act of 1900 consolidated the *de facto* gold standard existing in the United States since 1879. Nevertheless, for about three decades, greenback and then bimetallist agitation had caused real doubt about the durability of the U.S. gold standard, doubt reflected in otherwise surprisingly high interest rates on dollar-denominated bonds (Friedman and Schwartz 1982, 515–17).

In 1914 the major powers shared practically a common currency: exchange rates between their currencies were nearly fixed within the gold points. China was still on silver, and several Latin American currencies still had silver currencies or fluctuating paper currencies. But the major powers seemed firmly set on gold.

The decades just before World War I exhibited greater freedom of trade, capital movements, migration, and travel than ever before, although, with hindsight, historians can detect signs of moves back from near free trade toward protectionism as early as the 1870s. Human freedom and the gold standard appeared to support each other. In two of my favorite passages on monetary history, two otherwise quite dissimilar economists,

Benjamin M. Anderson and John Maynard Keynes, waxed lyrical about the personal freedom and the expectations of continued progress that characterized the heyday of the classical gold standard.

Those who have an adult's recollection and an adult's understanding of the world which preceded the first World War look back upon it with a great nostalgia. There was a sense of security then which has never since existed. Progress was generally taken for granted.... We had had a prolonged period in which decade after decade had seen increasing political freedom, the progressive spread of democratic institutions, the steady lifting of the standard of life for the masses of men....

In financial matters the good faith of governments and central banks was taken for granted.... No country took pride in debasing its currency as a clever financial expedient.

London was the financial center, but there were independent gold standard centers in New York, Berlin, Vienna, Paris, Amsterdam, Switzerland, Japan, and the Scandinavian countries. There were many other countries on the gold standard, with some tendency for the weaker countries to substitute holdings of sterling or other means of getting increased earnings. For their purpose the sterling bill was quite as good as gold.... But, in general, the great countries held their own gold. They relied upon themselves to meet their international obligations in gold. At times of great crisis a country under very heavy pressure would seek international cooperation and international assistance, and would get it—at a steep rate of interest. (Anderson 1949, 3–4, 6)

What an extraordinary episode in the economic progress of man that age was which came to an end in August 1914! The greater part of the population, it is true, worked hard and lived at a low standard of comfort, yet were, to all appearances, reasonably contented with this lot. But escape was possible, for any man of capacity or character at all exceeding the average, into the middle and upper classes, for whom life offered, at a low cost and with the least trouble, conveniences, comforts and amenities beyond the compass of the richest and most powerful monarchs of other ages. The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in

any continent that fancy or information might recommend. He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, could despatch his servant to the neighboring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference. But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable. The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the serpent to this paradise, were little more than the amusements of his daily newspaper, and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalization of which was nearly complete in practice. (Keynes 1920, 10–12)

The Decline of the Gold Standard

Far beyond the realm of mere monetary arrangements, the outbreak of World War I was a watershed in world history, one all the more poignant for the string of avoidable blunders that caused it.¹ Anyway, in the words of Howard S. Ellis, the gold standard has been “dead as a dodo ... since the guns of August 1914, since which it has only twitched” (quoted in Hinshaw 1971, 105–6). The word “twitched” refers to efforts to resurrect it after the war.

Exchange rates among major currencies fluctuated until the mid-1920s. Hyperinflations plagued eastern and central Europe. Perhaps the best-chronicled hyperinflation of all time climaxed in Germany in 1923, when stabilization was finally achieved at one new mark for 1 trillion (10^{12}) old marks. (It was not the most extreme inflation, however. My favorite economic statistic is the black-market rate on the dollar at the climax of the Hungarian inflation of 1946— 4.6×10^{30} pengös (Nogaro 1949, 119 n 3, and 120), a figure 10 trillion times as large as the number of *seconds* of estimated time elapsed since the Big Bang at the start of our universe.)

France pulled back from the apparent brink of hyperinflation in July 1926 and eventually stabilized the franc at about one-fifth of its prewar gold parity, a rate that somewhat undervalued the franc and gave the country a

1. The explanation of the war that invokes the Leninist theory of imperialism, one theme of a course I was assigned to teach at the University of Maryland long ago, seems to me contrary to fact and reason.

comfortable balance-of-payments position for several years. Great Britain returned in May 1925 to the gold standard—no longer the gold-coin standard, however, but a gold-bullion standard—at the full prewar parity. In contrast with the new French parity, this rate turned out to overvalue the pound at least slightly, which made the balance-of-payments position precarious. Britain was particularly vulnerable to withdrawal of foreign funds deposited or invested in London at short term.

Foreigners held voluminous deposits in London partly because many of the smaller countries returned after World War I not to the full gold standard but to a gold-exchange standard. Under that arrangement, a country's currency, instead of being redeemable in gold directly, was tied at a fixed exchange rate to a major currency that was on the gold standard. This arrangement was widely recommended as a device for "economizing" on gold by making gold reserves do double duty, serving directly as backing for gold-standard currencies and at one remove also as backing for gold-exchange-standard currencies. Like the gold-*bullion* standard, this arrangement was an attempt—whether conscious or not—to have the trappings or symbols of the gold standard without its full restraint on money issues. As such, it contributed to the precariousness of the whole system of the 1920s, aptly described as "pegging operations on a vast scale" (Brown 1940, 2:805). The systems instituted after both world wars resembled each other in that respect. (A fuller story of the precarious interwar system would have to bring in international wrangles over war debts and reparations.)

Foreshadowed by earlier departures of some minor currencies from the gold standard, an international financial crisis broke out in 1931. Starting in Austria, a morbidly fascinating international chain reaction culminated in Britain's departure from the gold standard in September (Yeager 1976, 339-344). Instead of clinging to gold, most of the British dominions and colonies, along with some other countries, pegged their currencies to sterling, thus inaugurating the Sterling Area.

The United States clung to gold for another year and a half, then allowed the dollar's exchange rate to float from April 1933 through January 1934. Official transactions manipulated the price of gold upward until, under the Gold Reserve Act of January 1934, President Roosevelt redefined the dollar in gold at a 41 percent devaluation. Thus began a thirty-seven-year period during which gold's price was fixed at thirty-five dollars an ounce. What was restored was not a full gold standard, however, but a so-called limited gold-bullion standard. Gold coins were abolished and, with minor exceptions, private ownership of gold was forbidden. Redemption in gold bullion was limited to dollars presented by official foreign holders such as governments and central banks.

A congressional joint resolution of June 1933 abrogated the gold clause. The clause promised payment of bond interest and repayment of principal in dollars "of the present weight and fineness." Before 1933 the clause had been included almost routinely in many private and government

issues, and its wording assured bondholders of payment in dollars containing as much gold as the dollar had contained when their bonds were issued. If the gold content of the dollar were to be reduced in the meanwhile, then a bondholder would receive enough additional dollars to make his payment equal in value to the amount of gold originally stipulated. In effect, the clause made gold, not the dollar, the standard of deferred payments.

The congressional resolution set this provision aside: now a bondholder was to receive only the originally specified number of dollars, regardless of what had happened to the dollar's gold content. Contending that this resolution was unconstitutional, some holders of private and government bonds brought suit to collect what they had been promised. The Supreme Court ruled in February 1935 that abrogating the clause in private bonds was indeed constitutional: private agreements must not infringe Congress's constitutional power to coin money and regulate its value—that is, to define the dollar. A different situation existed with U.S. government bonds: Congress did not have authority to repudiate obligations undertaken by the United States. Partly, however, because their legal briefs were judged deficient in proving actual damages suffered, the plaintiffs could not collect the additional dollars they sought.

To forestall more cleverly prepared lawsuits, Congress passed a further law amending the jurisdiction of the federal courts to bar them from hearing further gold-clause cases. The episode is interesting as an example of the U.S. government quite deliberately repudiating its own solemn promises. Some economists have argued that this action, regrettable as it was, was preferable to the alternative under the exceptional economic conditions of the time. Still, memories of this episode must have affected people's reactions later on, as in the 1960s, when gold-value guarantees on foreign-held dollars were suggested as one way to palliate the developing weakness of the U.S. balance of payments and the dollar.

Despite the Sterling Area depreciations of 1931 and the subsequent depreciations of the dollar and currencies linked to it, France, Switzerland, the Netherlands, Belgium, Italy, and Poland issued a joint statement during the London Economic Conference of July 1933 expressing their intention to maintain the existing gold parities of their currencies. France in 1935 and 1936 even minted 100-franc gold pieces corresponding to the franc's new gold parity defined by a law of 1928. Further events, to be described below, kept these coins from actually going into circulation.

Amidst world depression and in the face of the depreciations of sterling and the dollar and the currencies that followed them downward, gold currencies became increasingly overvalued. Countries that nevertheless tried to cling to gold suffered balance-of-payments strains and unnecessarily severe domestic depression. Czechoslovakia devalued in 1934, Belgium and Danzig in 1935. Increasing distrust of the French franc's parity showed up in forward discounts reaching 37 or 38 percent annual rates at times in the late summer of 1936.

The franc was suffering from one-way-option bear speculation such as sterling had suffered in 1931 and such as sterling and many other currencies would sometimes suffer under the Bretton Woods system after World War II. (A one-way option means almost a heads-I-win-tails-I-break-even opportunity; for speculators know in which direction any adjustment of a fixed exchange rate will occur, while the worst that could realistically befall them is not a change in the opposite direction but simply no change.) As things worked out, the franc had to be devalued in September 1936 by about 30 percent; devaluations of the Swiss franc and other gold currencies quickly followed. Yet after a few months, the devalued French franc came under renewed bearish pressure.

The U.S., British, and French governments announced the French devaluation of September 1936 along with a Tripartite Monetary Agreement. In it they recognized that exchange rates are matters of common concern. Each participant promised to maintain its own currency's exchange rate against the other two currencies at levels that would not be changed without twenty-four hours' advance notice. This assurance would facilitate cooperation in managing rates. Belgium, the Netherlands, and Switzerland soon adhered to the agreement, which has been widely interpreted as a forerunner of the Bretton Woods agreements of 1944.

The decade of the 1930s brought severely shrunken world trade, "beggar thy neighbor policies" by which governments tried to create jobs at other countries' expense (as by raising tariffs and tightening import restrictions), and unstable exchange rates. Exchange controls were widespread and stringent, most notably in Nazi Germany. Most of these troubles were consequences, however, of the world depression and of the inadequate monetary arrangements and policies that made it so severe. People complained frequently about competitive exchange depreciation, that is, of governments' actions to drive their currencies below their equilibrium values to promote exports and ward off imports. Yet harmful delays in correcting overvaluations were probably at least as common as deliberate undervaluations.

Interwar experience was widely supposed—notably in Ragnar Nurkse's influential *International Currency Experience* (1944)—to teach enduring lessons about the evils of floating exchange rates. Nurkse cites four episodes in particular as horrible examples: the French experience of 1922–26 of floating amidst domestically inflationary conditions, Britain's float for the first several months after being driven off gold in September 1931, the U.S. float in 1933–34, and the French float of June 1937 to May 1938, when the franc, after a second devaluation, was still under bearish pressure. But these were exceptional episodes—periods of transition flanked by exchange-rate pegging and themselves characterized by official manipulations. The most unsatisfactory episodes of the 1930s were not examples of *free* floating.

If the 1930s properly count as the death-throes period of the gold standard, some summary remarks about that system belong here. First, as a generally practiced international system, it was a brief episode in world

history, stretching from somewhere between 1870 and 1900 until 1914. Its resurrection after World War I was incomplete and temporary. Second, despite its short-lived influence, the ideology of the gold standard contributed to deflationary monetary policies tragically inappropriate to conditions of the early 1930s (Temin 1989; Eichengreen 1992). As long as they clung to the fixed exchange rates of the gold standard, many countries experienced the clash between the requirements of internal and external balance that would be fully explained only by macroeconomic theories still to be developed. Especially in countries that had suffered severe inflations in the 1920s, fear of inflation conditioned policies, inappropriately, under drastically changed conditions. Third, history shows that a government-managed gold standard does not ensure price-level stability or macroeconomic stability, though the record of government-managed paper moneys has often been worse. Fourth, the historical gold standard was not a self-maintaining system: governments eventually perverted it and finally replaced it with discretionary paper standards. (Remember the U.S. abrogation of the gold clause.) Fifth, what really interferes with commercial and financial transactions, especially international ones, is not lack of official convertibility of currencies into gold but impediments to convertibility in the contemporary sense, that is, government interference with free buying and selling of currencies on the foreign-exchange market. Sixth, the mystique that the gold standard may earlier have possessed—its being esteemed as at once modern, permanent, and ethically obligatory—no longer exists; and such a mystique, once destroyed, can hardly be resurrected.²

The Postwar Monetary Order

Monetary experiences during a world war like that of 1939–1945 are so exceptional, with governments dominating and tightly controlling international monetary relations, as hardly to require review here. The conference held at Bretton Woods, New Hampshire, in July 1944 does deserve mention. Postwar international monetary arrangements trace to the charter of the International Monetary Fund (IMF), negotiated there.

The Fund was organized in 1946 and opened for business in the spring of 1947. The philosophy of the Bretton Woods or IMF system supposedly embodies lessons of interwar experience and embraces several points. One is a horror of fluctuating exchange rates. Another endorses freedom of national governments to aim their monetary and fiscal policies at domestic macroeconomic objectives, including full employment, uninhibited by rigid exchange rates. The American negotiators tended to sell the scheme as a

2. Credible commitment to gold before World War I “depended on a unique constellation of political and economic factors.” The kind of cooperation among central banks that facilitated the system’s operation “rested on a specific conjuncture of political, economic, and intellectual circumstances unique to the late-nineteenth and early-twentieth centuries” (Eichengreen 1992, 390–91).

return to the essentials of the gold standard, improved in its details, while the British negotiators, notably Lord Keynes, tended to sell it as achieving freedom from the fetters of the gold standard. The IMF philosophy also recognized exchange rates as matters of intergovernmental concern, not to be changed outside specified initial limits without international consultation and approval.

The IMF was supposed to enforce its rules. Each member country was to declare a par value for its currency against either gold or the U.S. dollar and prevent exchange transactions on its territory at rates further than 1 percent away from the declared parity. Ordinarily each national authority would enforce these limits by whatever exchange-market transactions of its own proved necessary. (The United States, by exception, fulfilled this obligation by standing ready to buy and sell gold at its official price.) Each country was free to change its exchange rate up to as much as 10 percent away from the initially declared rate, but further changes might be made only after consultation with and approval of the IMF. (As things worked out, several momentous exchange-rate changes were made without the Fund's approval and even without its being notified in advance.) The Fund was required to give its approval if it found the change necessary to correct a "fundamental disequilibrium" (a concept left without precise definition), and the Fund might not withhold approval because of dissatisfaction with a member country's internal policies. In principle the IMF required free convertibility of currencies, that is, their exchangeability for other currencies on unhampered markets, but exceptions were provided. Countries might maintain exchange controls during a "postwar transition period" of unspecified length. Beyond that, countries could maintain—and might even be expected to impose—exchange controls to cope with disruptive capital movements, as distinguished from current-account transactions. (In practice, controlling capital-account but not current-account transactions ultimately proved almost impossible.)

Besides administering these rules, the Fund was charged with helping to finance exchange-rate pegging. A country suffering from balance-of-payments difficulties and weakness of its currency on the market was expected to support its currency—provided this condition was deemed temporary rather than indicative of "fundamental disequilibrium." It would buy its own currency in whatever amounts were necessary to keep its quotation from sinking below the prescribed narrow band, paying with foreign exchange (notably dollars) or gold (readily salable for dollars) drawn from reserves previously accumulated for that purpose. Facing exhaustion of these reserves, a weak-currency country could borrow the necessary additional foreign exchange from the IMF. (Technically the transaction was called a "purchase," not a borrowing, because the country deposited the counterpart in its own currency of the foreign currency drawn; but as the rules required eventual reversal of the transaction, though with a few exceptions, the transaction was in effect a loan from the IMF.) The IMF was able to make such

loans out of a fund of gold and, more important, U.S. dollars and other currencies subscribed by the member countries. The bulk of these contributions took the form of home-currency demand notes that each member could be required to redeem when necessary in actual money. Subsequent arrangements enabled the IMF to supplement the funds obtained from members' subscriptions with funds obtained by special borrowings and with funds created in the form of Special Drawing Rights (described below in the section on the collapse of Bretton Woods).

The Bretton Woods system had no automatic method of balance-of-payments adjustment. It lacked the mechanism inherent in a system of truly fixed exchange rates such as a full-fledged gold standard, namely, the mechanism that would regulate each country's domestic money supply through the currency's link to gold and the country's gain or loss of gold through balance-of-payments surpluses or deficits in a way that tended to correct or forestall those imbalances. Nor did the system employ the mechanism of floating exchange rates, forbidden by the IMF's rules. Rather, it confronted balance-of-payments disequilibriums, particularly deficits, with a mere "breath-holding policy" (Allen 1961): ordinarily a country would simply wait and hope for a payments deficit to go away more or less of its own accord, meanwhile continuing to peg its exchange rate by drawing on its own gold and foreign-exchange reserves and perhaps drawing on the IMF. In exceptional cases the country might try to restrain imports and capital outflows by trade and exchange controls, although controls violated the system's philosophy, or it might devalue its currency in cases of "fundamental disequilibrium." The Bretton Woods system thus held the exchange-rate mechanism of balance-of-payments adjustment in abeyance. Fundamental adjustment to changing conditions was at the mercy of national monetary managers.

In the course of events, exchange-rate adjustments occurred less often than, according to the usual interpretation, the intellectual founders of the IMF system expected. One can plausibly argue that rates exhibited too much rigidity. Circumstances described below apparently discouraged official readiness to make rate adjustments.

Yet many adjustments did occur. The first notable wave of adjustments came with Britain's devaluation of the pound from \$4.03 to \$2.80 in September 1949, promptly followed by devaluations of most other non-dollar currencies. This upheaval invites comparison with the one of almost exactly eighteen years before. Britain devalued again in November 1967, from \$2.80 to \$2.40, followed on this occasion by far fewer countries than before. After earlier adjustments, France devalued the franc again in 1957, 1958, and 1969. Devaluations were common in high-inflation countries of Latin America, Africa, and Asia. Some upward revaluations, such as Germany's in 1961 and 1969, did occur, but they were much less common than devaluations. One reason is that whereas the finite size of reserves and credits limits the defense of an overvalued currency, no symmetric limit

restrains maintaining an undervaluation: the country can simply keep on accumulating external reserves bought with newly created home money, though at the eventual risk of importing inflation. Some exchange-rate adjustments during the collapse of the Bretton Woods system will also be mentioned later on.

At least three reasons explain why exchange rates were not altered to adjust balances of payments as often as originally expected. The first concerns the J-curve effect: it takes time for the price changes caused by an exchange-rate adjustment to affect incentives and responses and so affect balances of payments in the “normal” way. Meanwhile, the sheer arithmetic of the changes, applied to old and sluggishly responding trade patterns, is actually perverse. Working with short time horizons, governments are naturally reluctant to make moves likely to appear unsuccessful for some time. Second, an exchange-rate adjustment may appear to be a sign of government failure. In particular, political opponents and adversely affected economic interests may point to a devaluation as proof of domestic inflationary blunders.

Third, merely the live possibility, not to mention the expectation, of an exchange-rate adjustment flags on one-way-option speculation. If adjustments had become a routine recourse in times of balance-of-payments difficulty, making them seem frequently possible, then speculative capital movements would have torn apart the intended system of even *usually* fixed exchange rates.

For such reasons, the Bretton Woods system turned out to be one of fixed exchange rates punctuated by only infrequent parity adjustments among the major currencies. (A different story applies to the inflation-prone currencies of many smaller countries.) No automatic balance-of-payments adjustments operated, but only a *mélange* of patchwork expedients.

The Supposed Heyday of the Bretton Woods System

Nowadays it is common (e.g., in editorials of the *Wall Street Journal*) to look back with nostalgia to the supposed heyday of the Bretton Woods system, dating from after the first years of postwar recovery, or perhaps from the end of the Korean War, to around 1970. Prosperity generally prevailed, and the real volume of world trade grew even faster than countries' total real outputs. Several rounds of multilateral negotiations reduced tariff levels. The postwar transition period of exchange controls permitted by the IMF charter eventually came to an end as, around 1958–60, the major countries that had not already done so now made their currencies externally “convertible,” that is, freely tradable on the exchange markets.

It seems, therefore, that the Bretton Woods system of fixed but adjustable exchange rates, administered and financially supported by the IMF, was a clear success. This impression could be wrong.

First, exchange-rate arrangements hardly caused the prosperous times. Instead, prosperity accompanied national full-employment policies that, through monetary and fiscal measures, kept total spending ample to buy the outputs of fully employed economies. Such actual or apparent success could not last forever. Sooner or later people would catch on to “expansionary” policies (as they clearly did in the 1970s) and would respond to high or rising levels of spending more with price and wage increases than with sustained rises in output and employment. But the period of fully catching on can be and apparently was quite long—roughly two decades. Meanwhile, domestic prosperity facilitated tariff reductions and the growth of international trade.

Second, the system was a “disequilibrium system,” lacking any “automatic” and continuously operating balance-of-payments adjustments. It was marked early by exchange controls and later by backsliding. After a period of “dollar shortage,” palliated by U.S. financial aid to the outside world, chronic balance-of-payments problems shifted to the United States.

Various U.S. controls of the 1960s, notably the Interest Equalization Tax and a ban on private American ownership of gold not only within but even outside the United States, as well as other measures to restrain lending, investing, and travel abroad, exemplify the patchwork measures characteristic of the Bretton Woods system. Calling in 1965 for “voluntary” controls over capital exports, President Johnson sought the effect of momentous legislation without enactment by Congress. Business firms were asked to subordinate profit considerations to the administration’s notions of national interest. The program’s spurious voluntary character and its inherent vagueness violated sound legal principles and were questionable on grounds of political philosophy. Vagueness and appeals to patriotic volunteering put a premium on compliance with the program’s spirit as well as its letter, inhibiting vigorous dissent and democratic debate.

Disequilibrium showed up in crises of one-way-option speculation that periodically swept the system. Besides those mentioned elsewhere in this survey, Great Britain experienced crises in 1947, 1951–52, 1956, 1957, 1961, 1964, 1966, and 1968. Even when the defenders of existing parities do succeed in riding through a crisis, it causes much disruption.

The Bretton Woods system fulfilled original expectations only briefly, for a few years in the 1960s.

The Collapse of Bretton Woods

The system’s collapse stretched out over many years. It was pretty clearly complete by 1 March 1973, but it is hard to say just when it began. One might even argue that the decline started as soon as removal of the controls of the postwar transition period inaugurated the full-fledged system. The switch in the general direction of world disequilibrium—from precariously suppressed payments deficits and currency weakness outside North America

(the “dollar shortage”) to weakness in the U.S. balance of payments and the dollar—came around 1960, give or take a few years. The early and mid-1960s brought various expedients to shore up the U.S. balance of payments and defend the dollar. They included not only the already mentioned controls but also measures to finance external deficits, such as the government’s issue of special bonds denominated in foreign currencies (“Roosa bonds”) and creation of a network of swap credits among central banks.

In November 1967, after coping over the years with several crises of bear speculation, Great Britain finally devalued the pound sterling from the \$2.80 rate set in 1949 to \$2.40. Speculative attention then turned bearishly to the dollar and bullishly to gold. Since 1960–61 the United States and several other governments had been cooperating in the London Gold Pool, feeding gold to the open market when necessary to keep its price from rising appreciably above the official figure of \$35 an ounce. In March 1968 the members of the Pool discontinued this effort. A two-tier market was established: gold would continue to trade among governmental and intergovernmental agencies at the old official price, but its open-market price was freed from intervention. Although the U.S. government remained avowedly willing to redeem officially held dollars in gold, in practice various pressures behind the scenes discouraged large-scale redemptions. Late 1968 brought an episode of bear speculation on the French franc and bull speculation on the German mark. The authorities withstood this crisis with emergency and patchwork measures and with no change in official currency parities, a supposed success that brought a congratulatory message from President Johnson to General de Gaulle.

Notable events of 1969 were another franc-mark speculative crisis in May, again temporarily weathered without parity changes, a surprise devaluation of the franc in August, and a temporary float of the mark in September before its upward repegging in October.

In 1970 the United States registered an unprecedentedly large balance-of-payments deficit, nearly \$10 billion on the official-settlements basis, reflecting dramatic reversals of short-term capital flows. In June, after floating from 1950 to 1962 and then being pegged for eight years at 92½ U.S. cents, the Canadian dollar was again allowed to float upward against the U.S. dollar.

In 1971 the U.S. official-settlements deficit reached nearly \$30 billion, largely reflecting precautionary or speculative transfers of funds out of dollars. U.S. dollar liabilities of kinds that count in the foreign-exchange reserves of their foreign official holders more than doubled: their increase in 1971 alone exceeded their total accumulation throughout all earlier history, even counting in that cumulative amount the 49 percent increase that had already occurred in 1970.

Besides these numbers, 1971 brought momentous events. In early May a speculative stampede out of dollars into several European currencies occurred, resulting in upward floats of the German mark and Dutch guilder,

upward revaluations of the Swiss franc and Austrian schilling, and a fuller separation of the commercial and financial foreign-exchange markets in Belgium. Worse than being mere palliatives, these piecemeal adjustments aroused expectations of more to come. One-way-option speculation against the dollar mounted in the summer. The "Nixon shock," so called by the Japanese, came on 15 August. The United States "closed the gold window," dropping all remaining pretense that officially held dollars were still redeemable in gold. Foreign authorities faced the choice of either continuing to peg their currencies against the now purely fiat dollar or else floating or revaluing them. A temporary 10 percent import surcharge was meant to prod other countries to raise their currencies against the dollar. At home, President Nixon imposed a wage and price freeze, which would later thaw into a complicated system of controls.

After four months during which major currencies floated against the dollar, negotiations culminating at the Smithsonian Institution in Washington in December 1971 achieved what President Nixon hailed as "the most significant monetary agreement in the history of the world" (Solomon 1977, 208). Most major currencies were revalued upward against gold, while the dollar was devalued by 8 percent. (The official gold price was raised to thirty-eight dollars. By now, however, gold parities had ceased to be operational except as a way of implying the central rates of currencies against each other.) By these Smithsonian adjustments, the central rates became \$2.6057 per pound sterling (as against the \$2.40 rate set in 1967), 31.0 cents per German mark (as against the 25 cents set in 1961 and 27.3 cents set in 1969), and 308 Japanese yen per dollar (as against the long-standing rate of 360). Furthermore, the Smithsonian agreement widened the permissible ranges of currency fluctuations to 2.25 percent on either side of the central rate from the 1 percent specified in the IMF charter and the 0.75 percent generally practiced.

Supposedly, after a few months' interruption, the Bretton Woods system was now reconstructed on a sounder basis, with new equilibrium central rates set according to econometric calculations. The reconstruction lasted scarcely fourteen months. Already in June 1972 the British pound came under bear speculation and had to be set afloat.

Which particular events triggered the final collapse of early 1973 was almost a matter of accident, but vulnerability to accidents had marked the system all along. Disappointment about delay in the Vietnam settlement was evidently one factor. Others were worries about the federal budget deficit and rapid money-supply growth in the United States, along with the particular timing of the inevitable further easing of wage and price controls. In January a flight of funds from Italy into Switzerland triggered introduction of a floating "financial lira" and an upward float of the Swiss franc, which left other nondollar currencies all the more attractive for speculators fleeing the dollar. On 12 February the United States announced a further devaluation, this time by 10 percent. The now almost meaningless official gold price

became \$42.22. (Actually, the dollar's new parity was expressed against the IMF's Special Drawing Right, to be explained below.) Japan allowed the yen to float, and Italy allowed the lira to float in its commercial as well as financial market, thus joining Canada, Britain, Ireland, and Switzerland as floaters.

Speculators evidently considered the latest U.S. devaluation inadequate. On 1 March alone the German Bundesbank had to absorb \$2.5 billion in support of the dollar against the mark, its most massive intervention ever in a single day. Then it gave up trying. Similar actions affected other major currencies not already floating. When the major European foreign-exchange markets reopened officially on 19 March, after partial suspensions, several European currencies were floating jointly against the dollar. (With varying membership, the European currency "snake" had existed since April 1972. It was to be consolidated in March 1979 into the present European Monetary System.)

Significantly, policymakers did not choose to switch from fixed to floating exchange rates; the recommendations of academic economists are not what prevailed. Instead, after prolonged and vigorous defense, the Bretton Woods system simply collapsed. Meanwhile, the defense effort had entailed massive purchases of dollars around the world as central banks and governments strove to maintain fixed parities and keep their currencies from rising against the dollar. During 1970–72 and the first quarter of 1973, foreign official holders increased their dollar claims of types counting as international reserves by 346 percent. In the process, they created massive amounts of local high-powered money, unintentionally setting the stage for multiple expansions of total money supplies through the operation of fractional-reserve banking. This monetary "explosion" fueled a subsequent severe speedup of price inflation throughout the world. (See *International Financial Statistics*; see also Ingram 1974, Rabin 1977, and Rabin and Yeager 1982.)

By now the original rationale of the International Monetary Fund—to supervise and help finance a system of fixed but adjustable exchange rates—had vanished. Like all good bureaucrats, however, the staff of the Fund had already been busy devising new functions for themselves. Under decisions made at the Rio de Janeiro meetings of the Fund in September 1967 and the provisions of an amendment to the Fund's charter ratified in the summer of 1969, the Special Drawing Right (SDR) had been created as one device for patching up the decaying system.

The chief rationale for the SDR was that the role of the U.S. dollar as the main component of official foreign-exchange reserves was anomalous. A continuing uptrend in the volumes of world trade and payments, balance-of-payments disequilibriums, and official trading to peg exchange rates required a growing volume of reserves. Continuing growth of dollar reserves required continuing deficits in the U.S. balance of payments; yet these deficits and the attendant buildup of U.S. liquid liabilities to foreigners,

especially seen in relation to dwindling U.S. gold reserves, made the position of the dollar seem increasingly precarious and vulnerable to speculation. The system as it had unintentionally evolved, in short, made continuing U.S. payments deficits both necessary and alarming.

The supposed solution was to create a new international reserve asset, the SDR, sometimes nicknamed “paper gold.” The IMF could create it out of thin air and distribute it to its members in such amounts as would contribute to a correct total of so-called international liquidity. The United States could then attend to correcting its international deficit without blocking the necessary growth of foreign-held reserves. Furthermore, the SDRs allocated to the United States would supplement its gold reserves and aid in defense of the dollar.

It is unnecessary here to review the complicated rules concerning the issue and employment of SDRs. Suffice it to say that the scheme did not work as intended. Years elapsed between its being first proposed, then adopted, and finally implemented. More or less by coincidence, the first issues of SDRs came just when they were least appropriate, in 1970, 1971, and 1972, when foreign official accumulations of dollars were reversing any supposed shortage of international liquidity into a glut of international—and domestic—liquidity. SDR holdings have never amounted to more than a very small percentage of official reserves anyway.

The SDR has, however, gained some prominence as a unit of account, especially in operations of the IMF itself and in denominating some private loans and bonds. Originally defined by the same quantity of gold then theoretically defining the dollar, the SDR was subsequently redefined in such a way as to avoid any jump in its size at the time of the change. In 1974 it was defined by a basket of sixteen currencies, then simplified in 1981 to a basket of only five. The simplified basket originally consisted of 40 U.S. cents plus specified amounts of the German, Japanese, French, and British currencies. The weights of the five currencies in the basket are periodically adjusted (as of 1996 the U.S. component is 58.2 cents). The SDR is thus defined by national fiat moneys lacking any defined values of their own. Under the current system of floating, the value of the SDR in any particular currency changes from day to day (except for a few minor currencies pegged to it). On 2 April 1996 the SDR was quoted at US\$1.4581.

For some time after the events of March 1973, the IMF maintained that floating was only temporary. Its Committee of Twenty labored at devising a return to a system of “stable but adjustable par values.” That hope lapsed well before the Second Amendment to the IMF Charter was proposed in 1976 and ratified in 1978. Belatedly, floating became legal. Each member might choose to peg its currency to some other currency or to let it float. The original Bretton Woods requirement that each currency have a declared parity against gold (or the U.S. dollar) was reversed into an actual ban on gold parities. Further to reduce the monetary role of gold, in 1976 the IMF began a program of disposing of part of its gold stocks, partly by returning

gold at the low official price to member governments, partly by selling gold in periodic auctions.

Since general floating began, the scale of IMF operations has actually increased greatly. Instead of serving only to defend fixed exchange rates, its loans go largely to help finance official interventions in the markets for floating currencies. Furthermore, the IMF has from time to time created and reshuffled so-called special “facilities” for loans on specially favorable terms to countries suffering designated troubles, such as burdensomely expensive oil imports or weakened export markets. The IMF has been getting into the foreign-aid business, blurring the originally sharp demarcation between its activities and those of its sister Bretton Woods institution, the World Bank.

Arrangements and Events Since 1973

Although the dollar is floating against the major foreign currencies and although the bulk of world trade takes place at floating rates, the current system is by no means one of universal floating. Many Latin American, African, and Asian currencies still remain pegged to the dollar, although flexibly or adjustably. Several are pegged to the French franc, a few to other currencies, and several to the IMF’s SDR. Several floating currencies are subject to official intervention intended to keep them stable against a basket of foreign currencies.

The most notable exception to general floating is—or was—the European Monetary System, which succeeded the similarly intended currency “snake” in 1979. The system’s significance was much reduced when its bands of permissible exchange-rate fluctuation were widened after episodes of speculative currency crisis in 1992 and 1993. In any case, its members are the countries of the European Union, although not all participate in its exchange-rate-stabilization mechanism. Each participating member declares a parity for its currency against the European currency unit, the ecu, which is defined by a basket of member currencies. (Besides being an acronym, “ecu” is the name of an old French dollar-sized silver coin.) These ecu parities imply parities of each participating currency against each of the others. Central banks are required to intervene in the markets to keep their bilateral exchange rates from deviating beyond prescribed margins. For short periods, each member central bank makes its own currency available to its partners in amounts necessary for these stabilizing interventions. Since 1994 a European Monetary Institute, succeeding an earlier European Monetary Cooperation Fund, has provided longer-term credits and issued ecus for settling debts arising from these interventions.

The ecu, presumably to be renamed “euro,” may serve someday as the basis for the projected European monetary unification. (It now seems doubtful that the participating countries will introduce their common currency on schedule in 1999.) Like the SDR of the International Monetary Fund, the ecu does not yet exist in banknote form and rarely serves as a

medium of exchange in private transactions. However, some official and private bonds and loans have been denominated in both of those basket currencies (with payments and repayments taking place in equivalent amounts of national currencies). The ecu has won more acceptance than the SDR in private markets. One apparent reason is that the ecu is a better alternative to or hedge against the U.S. dollar, since the dollar remains outside the ecu basket but is the largest component of the SDR basket.

Resemblances between the ecu and the SDR, along with exchange-rate arrangements, suggest interpreting the European Monetary System as a Bretton Woods system in miniature. As one might expect, crises of one-way-option speculation have occurred, and several readjustments of currency parities have been made. One main difference from the Bretton Woods system is that its members have contented themselves with less independence for domestic monetary policy. The German Bundesbank has provided leadership, promoting convergence of national inflation rates at a lower level than would presumably have occurred under free floating. Anyway, this is the reputation that the EMS has enjoyed. It will be interesting to see how it or its successor arrangement performs after the almost complete abolition of controls over trade and capital movements within the European Union.

From the start, the period of worldwide floating, like the Bretton Woods period, has been eventful (though, except within the EMS, without major crises of one-way-option speculation). October 1973 saw the Yom Kippur War between Israel and several Arab states, the Arab oil embargo against the United States and the Netherlands, the awakening of OPEC, and the near-quadrupling of oil prices around the turn of the year 1973–74.

Price inflation in countries around the world also heated up at about the same time; year-over-year rates of price increase reached double-digit levels in 1973 and 1974 (Rabin 1977). Superficial observers blamed the severe inflation of the 1970s on OPEC's predation, on other "real" shocks, even including disappearance of anchovies from off the coast of Peru, and, above all, on the floating of exchange rates and attendant loss of the supposed financial discipline of fixed rates. *Post hoc, ergo propter hoc*. The explanation most in accord with economic theory, well supported by historical evidence, points to the earlier bout of worldwide money-supply inflation tracing to dogged but ultimately futile defense of *fixed* exchange rates; money-supply inflation raised prices with the usual lag of roughly two years.

Other events include the world recession of 1975, associated with the macroeconomic consequences of the oil price increases, another oil shock in 1979, the sharp depreciation and then recovery of the British pound in 1976, associated with changing expectations of monetary policy and exchange-rate support, and the vicissitudes of the U.S. dollar in 1978 and 1979, culminating in appointment of Paul Volcker as Federal Reserve chairman in hope that he would stop inflation and save the dollar. What turned out in retrospect to be the rather lighthearted "recycling of petrodollars" to finance trade deficits caused by increased oil prices

contributed to the international debt problem of third-world countries that reached the headlines in 1982.

More pertinent than further details of this unstable environment in which exchange rates have been fluctuating are some comments on volatility and misalignments. Rates have moved widely, even wildly. "As someone who has always strongly favored floating exchange rates," Milton Friedman (1985) admitted that he "did not anticipate the volatility in the foreign exchange markets that we've had" (*New York Times*, 26 December, op-ed page). Bilateral rates have fluctuated 10 and 20 percent over periods of months and sometimes several percent from day to day or even within days. The dollar fell nearly 10 percent against the German mark from early April to early May 1986, climbed 7 percent for three weeks, then dropped 5 percent in a week (*Wall Street Journal* (WSJ), 9 June 1986, 27). Earlier, between Friday 20 and Monday 23 September 1985, on news of the Plaza agreement concerning market intervention, the dollar plunged by a reported record amount from one business day to the next—by 5.4, 5.3, 5.2, and 5.0 percent against the yen, mark, Swiss franc, and pound sterling, respectively (WSJ, 24 September 1985, 3; 26 September 1985, 3). After falling sharply during December 1991, in one week of January the dollar jumped nearly 8 percent against the mark and other European currencies (WSJ, 16 January 1992, C15). Contrary to hopes pinned earlier on development of market institutions and accumulation of experience, rate fluctuations appear not to have been getting milder over time. Again the question arises of how to apportion blame, if any is due, between the markets themselves and the climate of irresponsible and unpredictable government policies in which they operate.

It is an unsettled issue whether official intervention, together with rumors of its being started, altered, or suspended, has made exchange rates less or more volatile on the whole than they otherwise would have been. (Yeager 1976, chap. 14, explains how intervention might increase volatility and surveys episodes in which it apparently did. gyrations of the British pound in 1976–77 and of the U.S. dollar in 1977–78 further illustrate the influence of official intervention, its suspension, negotiations for international support of a currency, and related rumors, true and false.) In the view of Professor Steve Hanke, chief economist for a commodity- and currency-trading firm, the threat of more central-bank intervention leads to greater market volatility. It raises the risk for currency speculators and forces them to seek greater returns in compensation. "We're getting another set of big players in the market and you never know when they're going to hit the accelerator or slam on the brakes" (WSJ, 8 May 1986, 34). The financial press frequently carries stories interpreting day-by-day exchange-rate jumps as responses to news and correct or incorrect rumors about presence, intensification, absence, or diminution of official intervention. Newspaper stories scarcely prove cause and effect, of course. Hard evidence on such matters is elusive. But an economic historian, like a detective (cf. Winks 1970), would be ill advised to rule out any evidence a priori. Newspaper

stories offer clues to the thinking of people in the markets, and their thinking and reactions are bound to affect what happens.

Explanations of exchange-rate volatility, however plausible, do not explain it *away*. How serious its consequences are is not clear. Volatility seems not to have impaired the volume of international trade, or not enough for the effect to be detectable beyond doubt (Aschheim and others, 1987, esp. 433–441). Capital movements have flourished, perhaps excessively in some sense; and foreign-exchange transactions associated with them now vastly overshadow transactions associated with trade in goods and services.

Volatility, some proponents of intervention argue, is a nuisance but not the worst defect of the current float. More serious, they say, are exchange rates “misaligned” with their long-run equilibrium levels or with relative price levels and other “fundamentals” (Williamson 1985; Bank for International Settlements 1986, 150). Misalignments cause alternations of splurge and austerity as a country’s currency floats too high and then too low. They distort the allocation of resources between tradable-goods and nontradable-goods industries; they impose unemployment and other costs of otherwise unnecessary interindustry resource shifts; they contribute to inflation through ratchet effects; they breed protectionist measures; and so forth. Such concerns about misalignment form the core of the case for exchange-rate management—for “target zones” and the like.

The most conspicuous case of misalignment was the growing strength of the U.S. dollar up to early 1985. From its low in July 1980 to its peak in February 1985 “the multilateral trade-weighted value of the dollar rose 87 percent in nominal terms and 78 percent in real terms” (U.S. Council of Economic Advisers 1986, 31; other measures show roughly the same degree of nominal appreciation against other currencies on average).

Around the peak, concerted intervention by the Federal Reserve and other central banks worked for a decline in the dollar; and the Plaza Agreement of September 1985 reenforced this interventionist posture. Yet the turnaround and subsequent sharp decline cannot be attributed mainly to intervention. The dollar had risen unsustainably high. By early 1987, official worries focused on its weakness, and the Louvre Accord of February 1987 was intended to restrain its fall. Although the Louvre target zones for exchange rates never were publicly announced, it had become evident by late in the year that the official support of the dollar had collapsed. By the end of 1987 the dollar had fallen to below half of its 1985 peak values against the mark and yen. Thereafter it recovered somewhat, reportedly thanks in part to official intervention; but by late 1991 and early 1992 the dollar was again scoring record lows against the mark.

This is not the place to offer and test explanations of the dollar’s rise and fall in the 1980s. Changing influences of and reactions to the U.S. government budget deficit enter into the most prominent conjectures. The size of the exchange-rate swings in comparison with fundamentals such as

relative price levels suggest that if the dollar was not massively overvalued at its peak of 1985, it must have been massively undervalued in mid-1980 and again at the end of 1987.

Some free-market champions are inclined to answer the question whether exchange rates have been correct during the period of floating by observing that markets are efficient and take account of all information cost-effectively available. Anyone who knew better than the opinion already reflected in exchange rates was free to profit from such superior knowledge. The rates that did emerge must have been correct. This interpretation comes dangerously close to tautology, to defining whatever happens on a free market as correct and not subject to second-guessing.

I am willing to employ hindsight. But I press the question: What would the alternative have been to the rate swings actually experienced? Dissatisfaction with one course of events does not imply knowing how and being able to achieve a more satisfactory course. Anyone who argues that the dollar's appreciation to its peak of early 1985 should have been prevented should say *how* and should examine the likely consequences of the measures contemplated. The alternative policies that occur to me do not seem attractive. (I refer, of course, to palliative policies of the usual variety, not to genuine commitment by governments and central banks to currencies of stable purchasing power.)

On the issue of the exchange-rate system, it is superficial to say that we should have kept rates fixed in 1973 and should fix them again now. Prodigious efforts to keep them fixed simply collapsed. More recently, even the Louvre accord for pegging rates loosely within fuzzy and unannounced ranges collapsed within several months. What is the point of saying that something should have been done or should now be done if in fact it could not and cannot be done?

Where Do We Go from Here?

Although my task has been to describe historical developments, I feel entitled to offer some hints about possible reforms.

First, we should be clear about just what is absurd in the existing system. It is not the free determination of prices on the foreign-exchange market (rates are not *freely* flexible anyway). The absurdity consists in what those prices are the prices of. They are the prices of national fiat moneys quoted in each other, each lacking any defined value. At bottom, the unit of account in the United States is whatever value the supply of and demand for cash balances fleetingly accord to a scruffy piece of paper, the dollar bill. The value of each money responds to conjectures about the intentions of the government issuing it and about that government's ability to carry through on good intentions. These conjectures are understandably subject to sharp change.

Ideas for reform along the lines of the European Monetary System and its ecu are popular nowadays. Yet the ecu does not represent a fundamental

reform. It is merely a basket of national currencies, each continuing to suffer erosion of its purchasing power for reasons amply illustrated in the entire history of fiat money.

In contrast, the “Eurostable” proposed by Jacques Riboud (1975, 1977) would be a stable unit. The Eurostable would also be a basket of currencies, but the number of units of each currency included in the basket would be periodically adjusted up (or down) in proportion to a price index of its home country. The Eurostable would thus have a stable average purchasing power over the goods and services whose prices entered into calculating the national price indexes employed in adjusting the basket’s composition. So conceived, Riboud’s Eurostable presupposes the continued existence of national currencies.

The idea underlying the Eurostable might be implemented in a simpler way. Instead of being defined by periodically adjusted amounts of national currencies, a stable unit might be defined *directly* by a basket of goods and services of the kinds and in the amounts appropriate for calculating a wholesale or cost-of-living index.

The issue of money denominated in a new stable unit need not necessarily be entrusted either to a supranational agency or to national governments. Proposals for radical reform can at least stimulate ideas. One promising approach would privatize the monetary system (Greenfield and Yeager 1983; Yeager and Greenfield 1989; Dowd 1989). No longer allowed to issue money, the government would merely designate a new unit of account and promote its general voluntary adoption by using it in its own accounting, taxation, contracting, payments, and other operations. Instead of being defined by government money or by any other particular medium of exchange, the unit would be defined by a bundle of goods and services comprehensive enough for the general level of prices quoted in it to be approximately stable. Private banks would issue notes and checkable deposits, and they might also offer checking privileges against equity mutual funds. The quantities of these media of exchange would accommodate themselves to the demand for them at the price level corresponding to the definition of the unit. Incipient imbalances would trigger corrective arbitrage. This automatic equilibration of demand for and supply of media of exchange at a stable price level would prevent price inflation and major recessions.

Under the discipline of competition, the private issuers of notes and deposits would probably stand ready to redeem them in convenient assets (gold or agreed securities) in amounts having the same total value in bundle-defined units as the denominations of the notes and deposits being redeemed. Most redemptions would probably take place at clearinghouses, where banks acquiring notes issued by or checks drawn on other banks would routinely present them for settlement against their own obligations presented by others. Net balances at the clearinghouse would be settled by transfers of the agreed redemption medium. The necessary calculations and

operations would be carried out every business day by professionals. With the proposed reform in effect, ordinary persons would no more need to understand what determined the purchasing power of the unit of account than they needed to understand how the gold standard worked before World War I or than they need to understand Federal Reserve operations and the rest of today's unsatisfactory process of determining the purchasing power of the fiat dollar.

The particular reform just sketched needs no further argument here and no defense against appealing alternatives. It already illustrates what a *fundamental* monetary reform would be, in contrast to superficial tinkering with the arrangements under which undefined national fiat currencies trade against each other. The root absurdity of our existing system will eventually become manifest. How long will the U.S. government, like other governments, remain able to run up debt denominated in an undefined unit and ultimately repayable in nothing more definite than pieces of paper to be printed by itself?

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Culture, Politics, and McCarthyism



IRVING LOUIS HOROWITZ

Defining McCarthyism has become something of an intellectual mini-industry among those who study contemporary American political history. For an older generation of scholars and writers, it is an exercise in memory retrieval, whereas for a younger generation it is all too often an act of mythology. For example, amidst a celebration of the 1953–1955 period in her fine biography of Kenneth Rexroth, Linda Hamalian cannot avoid alluding to the pall of McCarthyism by referring to these culturally brilliant years as “The Silent Decade” (Hamalian 1991, 225–37).¹ But if there are contradictions in social science preachments, so too are there lapses in anecdotal acts of recollection.

Despite the existence of a few genuinely brilliant works on the subject of McCarthyism (Oshinsky 1983; Fried 1990), the nature of the man and of the period he presumably represented remains elusive. I suspect this is due to the appellation itself. We tend to think of “isms” in substantive, world historical, and ideological terms. But McCarthyism divides rather than unites informed opinion. This is so much so that we find members of various groups—Democrats and Republicans, statist and libertarians, nationalists and regionalists, labor leaders and managerial moguls, Jews and Christians—all strongly aligned either with or against the Wisconsin senator. What is clear is the powerful emotive responses he generates, even in retrospect. Herein lies at least one essential element of McCarthyism: its ability to

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1. In all fairness, one must note that the author does not deal with McCarthyism directly.

define the sentiments, the epochal spirit, while basically leaving untouched its structural characteristics.

While reviewing a recent biography of Walter Winchell—the radio broadcaster and newspaper columnist who unarguably was more widely listened to and read than any other media figure of the 1950s—the writer Harold Brodkey captured the soft, subjective underbelly of McCarthyism as a by-product of national politics in post-World War II America. To understand the *Geist* of the time, I can find no better introduction to the topic:

[M]oral cowardice and personal safety and corruption and self-doubt and unlimited greed became national characteristics and national virtues. No one knew how to act. It felt as if this were a country consisting entirely of recent converts, and everyone went on tiptoe. McCarthyism came—first it was an attack on the upper-caste white Protestants that Roosevelt distrusted, and then on show business figures, and then it became a move toward a popular coup. It was not an era of clear thought. Eisenhower tacitly backed McCarthy and then withdrew from him and then destroyed him. The veterans' right to have a McCarthy—to protect the Roosevelt legacy long enough for them to get rich from it, too—seemed appropriate, but that didn't make any of it bearable. It seemed to be a function of a semi-utopian mass society that it be unlivable. (Brodkey 1995, 77–78)

McCarthyism having been thus mythified, it might be best to explain why McCarthy, rather than other populist miscreants of the 1950s, became the hallmark of its politics. I suspect that his fame was largely a function of his unique ability to arouse academics, journalists, and entertainment figures into righteous wrath. Such opposition as well as the choice of those he assaulted reflected the selective rather than collective havoc McCarthyism wreaked on American society. I believe it was Solzhenitsyn in the *Gulag Archipelago* who observed that certain events and people are remembered and others are forgotten by virtue of the monopoly role of intellectuals who write about the past. If we expand this role to include people in the media as such, then the fame and infamy of McCarthy and his “ism” might be better understood.

There is no question that McCarthyism's greatest successes took place within the academic institutions and the cultural media. If Joseph McCarthy uniquely appreciated the role of the media and the academy in shaping an epoch, the media and the academy well knew how to respond with authoritative words rather than raw power. And they did so with remarkable success. From the halls of ivy to the burgeoning network television stations, McCarthyism rallied defenders of free speech. The 1950s were a period of academic insularity, to be sure, but also of academic solidarity to a remarkable degree. I say this even though there were a few notable defections on the part of famous scholars who testified against friends and colleagues, and

others who wrote sophistic philosophical tracts distinguishing legitimate dissent from illicit treason.

Even within this rarefied realm, however, one must be careful to appreciate the limits of McCarthyism. David Riesman (1994, 15) recently pointed out that in his research on a variety of campuses, what he found “was that McCarthyism, now talked about as if it were a blight on the whole country, was actually restricted to the stratosphere—to the most prestigious, elevated institutions.” Riesman is largely correct. I would modify his point to note that it was extended to certain second-tier institutions (at the time at least) such as New York University, the University of Washington, and Reed College—to cite several well-known places where dismissals and suspensions occurred. Nonetheless, the impact of McCarthyism occurred within a circumscribed band. Given its chilling effect, no more may have been required. A single dismissal in a single discipline can go a long way to silence dissent. But some sense of proportion is called for.

Any fair-minded retrospective must start with an appreciation that McCarthyism presents us with a series of paradoxes and not a uniquely integrated body of thought and action. As evidence for such a position, one must point to the cultural productivity of the decade. Arguably the 1950s, especially the earlier part of that decade, witnessed a flowering of culture unmatched by any other decade of the twentieth century. Simply to list a few key figures is to present intimidating evidence of this period as one of creative energy of a high order.

In the legitimate theater we had Arthur Miller, William Inge, Tennessee Williams, and Eugene O’Neill, all at the height of their achievement. And few can doubt the radical, certainly not reactionary, thrust of their collective works. In American jazz there was the virtual revolution created by Charlie Parker, Thelonius Monk, Miles Davis, and John Coltrane, to mention but a few major figures. This was also a period of extraordinary contributions to American music as such, with figures such as Samuel Barber, Leonard Bernstein, and Walter Piston coming to the fore. In fiction the work of Norman Mailer, John Updike, Saul Bellow, and Ralph Ellison, again to mention but a few, burst onto the postwar scene. The 1950s was the first decade in which television took on a unique cultural personality. The work of Rod Serling, Sid Caesar, and Edward R. Murrow not only gave “personality” to the media but did so with a sly cutting edge that ultimately unraveled everything the McCarthyists stood for. Finally, even in the realm of the politically as well as poetically tendentious, the 1950s boasted such figures as Allen Ginsberg, William Burroughs, and Jack Kerouac.

These figures not only influenced their own generation but entered the American cultural mainstream. We must remember the enormous cultural ferment of the era. Political repression at times, and not infrequently, gives rise to cultural nuance, not mechanically so much as in response to systemic evils.

One might say the same about the sphere of higher learning. In the 1950s it became apparent that all manner of new fields were part of the academic experience. Old fields were being reinvigorated by new personnel—individuals from ethnic and religious backgrounds that could hardly be described as tweedy or Republican, and scholars who brought their wartime experiences to play in redefining American life and letters. True enough, many of the figures celebrated in the 1950s were continuing careers that had blossomed in the 1930s and in some instances even earlier. Figures such as Edmund Wilson, Walter Lippmann, and Max Lerner come readily to mind in this connection. Cultural achievement is not, after all, restrained by or limited to a single decade. Nonetheless, the American soil was hospitable to a creative cultural outburst in the McCarthyist period, and a strong element of liberalism, indeed radicalism, was perhaps more typical of the age than one had a right to expect given the public sentiments of the times. This paradoxical environment of the age can escape notice only by the obtuse or those interested in scoring empty political points.

An objection might be raised that many of the major figures herein cited were products of an earlier period and that while their careers remained strong in the McCarthy period, it would be difficult to claim any sort of functional correlation between political closure and cultural openness. But if we look at the field of endeavor I know best, sociology, it is apparent that the early 1950s witnessed an amazing outpouring of talent that provided the legacy from which the field still heavily feeds. Seymour Martin Lipset in political sociology, Howard S. Becker in social deviance, Erving Goffman in social psychology, Anselm Strauss in medical sociology, Charles Westoff in demography, Morris Janowitz in military sociology, James S. Coleman in social theory, E. Franklin Frazier in race relations, and Peter Rossi in methods of urban research are just a few examples. It should be clear that all sorts of factors were at work—from a postwar demand for exact information in a wide variety of economic, political, and social endeavors, to the smashing of barriers that previously had prevented scholars from gaining access to academic mobility ladders—that made McCarthyism an irritant rather than a fundamental force in the lives of American sociologists. I suspect that with little effort, a similar list can be readily compiled in allied social and behavioral sciences.

In short, academic and cultural agencies were by no means reduced to ashes by McCarthyism. What did take place in the 1950s, as in the 1930s, was intense dialogue and even cleavage on the issue of communism. The wartime consensus about cultural matters broke apart as the Cold War between the Soviet Union and the West replaced the common front against fascism. But this ideological struggle took place among those who fancied themselves of the political Left. Defenders of McCarthy were few and far between even in the early 1950s. The conservative Edward A. Shils was no less vigorous in his opposition to McCarthyism than the radical C. Wright Mills—indeed, probably a good deal more so. The real split, the key schism,

was the threat, actual or alleged, posed by communism. It is the decision on this question that either silenced or mobilized individuals in their attitudes toward McCarthyism. The postwar ruthlessness of Stalinism, the quick reduction of Poland, Bulgaria, Romania, Hungary, and above all Czechoslovakia, had a postwar impact on American consciousness similar to the earlier subjugation of Western Europe by the National Socialists. The war aims of the democracies were thwarted by the consequences of the peace. Europe was redivided into free and totalitarian portions rather than resurrected whole from the economic and political rubble of the war. And the socialists no less than the conservatives sensed the threat of the Soviet Union to free societies. The work of Phillip Rahv and William Phillips on *Partisan Review*, Irving Howe and Lewis Coser on *Dissent*, Julius Jacobson on *New Politics*, and Irving Kristol and Melvin Lasky on *Encounter*, to mention just a few figures who gave body to the decade, is revealing in this connection. Whatever their differences, these figures led the struggle against the authoritarian Left, and would have done so with or without the intervention of the senator from Wisconsin. To be sure, their collective task would have been far simpler without McCarthy. Critics of totalitarianism on the Left were forced to trim their sails in order not to be condemned as McCarthyites themselves.

Having failed utterly in its cultural purposes, what then did McCarthyism accomplish? My own answer on overview is that McCarthyism was able to extend further the already dangerously enshrined split between American culture and American politics. If culture is the source of ultimate ideals, politics in its pure form is the conduct of quotidian realities. McCarthyism tapped into a reservoir of doubt, fear, and concern that the struggle of America for Franklin Roosevelt's Four Freedoms and Wendell Willkie's One World might not be realizable. McCarthy may not have defeated American culture, but neither was he defeated by the aforementioned cultural apparatus. His great victory was in giving populism an extremist, albeit marginal, turn in an age of bureaucratic and political centralization.

Only when McCarthyism sought bigger game to bag, or rather larger fish to fry, were its goals stymied. When McCarthy and his cluster of supporters shifted gears from a consensual struggle against communism to a populist struggle against capitalism and went after America's political and military institutions, he and his followers elicited reaction from critical actors in the political process that forced a halt to and eventually eliminated McCarthyism. The political establishment reacted not in moral opposition to McCarthy with respect to the threat of communism; President Eisenhower was every bit as aware of the real dangers of Soviet expansion. It did so as a political necessity, to defend the economic system and the political process from the dangers of delegitimation.

In this larger political context, crucial figures including Presidents Truman and Eisenhower and such key policymakers as George Marshall and

Dean Acheson were in a position to halt the spread of McCarthyism from the cultural apparatus to the political fabric. The Army-McCarthy hearings may have been a media event, but they were also the occasion for a fusion of political and military forces against the sort of encroachment that held putschist implications. And Eisenhower, as an incarnation of both the political and the military processes, stood at the head of the procession to halt and eventually destroy McCarthyism.

I state this perhaps in sharper terms than actual events warrant, to avoid any ambiguity on the vital issues and thus to permit some movement toward a realistic appraisal of this blight on the American landscape that neither dismisses the McCarthyist phenomenon as such nor exaggerates its claims to importance. The key, in short, is that McCarthyism was a limited, quasi-populist ideology of anticommunism that had its greatest success in its assault on American cultural agencies and individuals, and ultimately failed at the hands of American political leaders who had grown weary of reductionistic and simplistic approaches to the art of governance and the practice of politics. Both appointed and elected government officials banded together in a rare display of unity to overcome a totalitarian menace. The United States was still too close to the struggle against fascism and Nazism to fall easy victim to nativist rumblings.

We should recognize the importance of Leo Strauss's observation that repression may stimulate cultural creativity. This is true even of milder forms of repression such as McCarthyism. Out of the search for an appropriate language of resistance emerges subtleties of language and symbols that may escape notice in more open societies. The history of Western culture is dotted with illustrations of this proposition. Perhaps no epoch in human history equaled the French Enlightenment. Yet Montesquieu, Voltaire, Diderot, D'Alembert, Helvetius, Holbach, and countless others emerged during the *ancien régime*, a period of political decadence and repression that was awful enough to hurt ordinary people but hardly severe enough to curb cultural outpourings of the greatest nobility.

Despite the name-calling and repression in select cultural spheres, the 1950s were a time of enormous cultural energy in the United States. The essential mark of the period was intense criticism and scrutiny, albeit cloaked in careful ethical terms. That one needs to be reminded of this is a tribute to the ability of mythology to overwhelm reality. Even the famed "Hollywood Ten" for the most part went on producing plays and film scripts, admittedly with severe impediments such as working under pseudonyms. This observation is not an argument for repression; it is a statement of fact. Even under the most awful murderous repressions of Stalinism, and faced with far direr threats to life and limb than anyone experienced in the McCarthyist period, Shostakovich, Prokofiev, Kabalevsky, and Katchaturian went on producing masterworks. The assignment of labels to describe the climate of a historical period obscures the profound disjunction between the realms of politics and culture.

A key element in the ultimate demise of McCarthyism was its exaggeration of the dangers posed by opposition. This was hardly something that started in the 1950s. Indeed, it had solid roots after World War I no less than after World War II. These alarums and asides generated mirthful rather than frightened responses to the various claims by reactionaries and super-patriots. Comics like Lenny Bruce and Mel Brooks in particular had stock anti-McCarthy caricatures in their humorous routines.

Such developments suggest a highly differentiated climate of American opinion, one far from conformity or contrition. Events following a major war had enormous consequences for the structure of economic and political organizations worldwide. America could hardly return to the simplistic models that fueled America First in the prewar decade. Nonetheless, a complex set of circumstances prevailed in the decade following the two major involvements in European affairs: nativism, fear of excessive involvement in the affairs of decadent powers, and concern that the brush fires of revolution would flame up on American shores. I do not want to dismiss the differences between the Palmer raids and the McCarthy hearings, but it should be clearly appreciated that larger forces were at work that made McCarthyism viable while limiting its threats and name-calling out of a far more potent sense of legal restraints on charges of un-American activities. These same forces diminished McCarthy and ultimately dispatched his "ism" in relatively short order.

Left and Right shared mutually exclusive fallacies: The Left simply refused to understand that there was a communist conspiracy that represented a serious incursion into the Western political systems and posed a genuine threat to America in particular. Every document now released from KGB and STASI files reveals the authenticity of this threat. The Right refused to understand that McCarthyism was a serious assault on the Western political system and that its antidemocratic aspects posed a genuine threat to the political system. Indeed, ultimately this awareness elicited the vigorous and unyielding response that brought McCarthy down.

McCarthyism is another term for intolerance backed by power. As such, as Ronald Radosh (1993) has shown, it is at home in the Left in the 1990s as it was in the Right in the 1950s. The level of intolerance is a near constant. The intolerance of the presumably tolerant has been too well documented in the struggle over political correctness to require further elaboration in this specific context.² Hence the struggle now, as then, is against the forces of antidemocracy, against the forces of fanaticism and intolerance. The problem now is much greater than in the 1950s. Then the incursion was extrinsic; now it is intrinsic. The political assaults of McCarthy on the academic world served to unite that world against intolerance. The political

2. For a sober and chilling outline of political correctness within the academy and especially its most sensitive areas, the sciences, I recommend Gross and Levitt (1994).

assaults are now from within the academy, and hence serve to bitterly divide the academic world against itself.

Worse yet, the assaults come from quarters that confuse the public as to fundamental civil rights. Thus, we find on campus after campus assaults on free speech in the name of human rights! The simplistic formula is that any statement that stimulates hate should be forbidden. In a nutshell, alleged minority rights preclude the free expression of ideas. In such a conformist environment under the umbrella of putative human rights, just about any controversial position or light-hearted jibe can be viewed as a slur and a slander. A bitter, humorless totalitarian Left, operating under the full protection of university administrations too frightened to assert the claims of the First Amendment, has created a climate far more dangerous to the conduct of free inquiry than any dangers ever posed by McCarthyism. Its consequences for the expansion of knowledge are grave; its impact on the norms of discourse have already been disastrous.

The legacy of McCarthyism is thus two-fold: one side opposes democracy in politics and freedom in culture; the other inspires successful resistance to such constraints. Moreover, the McCarthy period was one of cultural flowering such as we have not known since. This is hardly a cause for smug self-satisfaction or a moment for triumphalism. McCarthyism is not a monopoly of reactionaries or a curse to revolutionaries, but, as Neil Hamilton (1995) has so persuasively argued, it is a common property of those for whom democratic values as such are anathema. And in the hands of those with fanatical ideological agendas, it serves to weaken the democratic foundations of American society as such.

The situation that greets us in the *fin de millennium*—forty years and two generations removed from McCarthyism—has been well captured by Peter L. Berger (1995, 16–17). One could do worse than listen to his concerns and respect his formulation.

Contemporary American culture suffers from two (possibly, but not necessarily, related) pathologies. One is based on the so-called underclass. It is the one that is most prominent in public opinion. It includes crime, drugs, illegitimacy and a chaotic breakdown of moral order. The other pathology, arguably much more serious because much more difficult to contain, is grounded in the elite culture (or if you prefer, the New Class). It is animated by an assemblage of more or less demented ideologies derived from the 1960s that have now completed their “long march through the institutions,” debasing the educational system from top to bottom, politics and the law, the communications media, and increasingly the very fabric of everyday life.

If my analysis is correct, then we are obligated to carry the discussion of McCarthyism one step further into the realm of social theory. If culture is relatively autonomous from politics—at least in democratic states—then

what are the sources and limits of such a dualism? A variety of theories suggest themselves. First, there is a Durkheimian view that in a universe of extreme division of labor and tasks there will be multiple tracks responding to multiple needs that do not always move in concert. Second, there is a Marxist view that the relation of economic base to cultural superstructure is uneven and imperfect, that while in the long run the culture reflects the ideological needs of state and economy alike, culture may bloom independently of the state for short periods. Third, there is the Straussian view that culture flowers best when there is an external need for subtlety of expression, and such sophistication is most likely to appear under conditions of relatively mild repression.

There is a fourth, disquieting view, which I admit to leaning toward if not entirely accepting. It is more a vision than a view, one that perhaps owes more to Machiavelli and Hobbes than any postmodern figure, but it cannot be ruled out. In contemporary society, culture is permitted to flourish even when the political atmosphere is less than hospitable, because culture serves to defuse rather than stimulate potential opposition. The relatively small percentage of a population, even in a democratic society, linked to the cultural apparatus is self-contained and relatively harmless with respect to larger currents of the political process. So why bother to engage in acts of repression unless they are absolutely necessary? In such a scenario, the repressive mechanisms of fascist and communist states are counterproductive, making heroes and heroines out of a deracinated segment of the population. Of course, such a vision presumes an able political leadership that itself may be influenced by cultural brilliance.

Some clever wags can and no doubt will multiply theoretical combinations and permutations of this dualism of politics and culture in democratic states. And in truth, it would take us far afield from the topic of the day to arrive at even a tentative set of propositions, much less a general theory. Nor am I remotely suggesting the ludicrous idea that we arrange for controlled experiments in little bits of McCarthyism to "test theory." Without the help of social scientists, we have running rampant enough authoritarian personalities who would be kings. But we do need to recognize realms of political freedom as well as degrees of repression if we are to seriously and vigorously defend the former and oppose the latter in future assaults on a democratic polity.

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Was Your High-School Civics Teacher Right After All?

Donald Wittman's *The Myth of Democratic Failure*



DONALD J. BOUDREAUX

I met George Stigler only once. This most Chicago-esque of economics Nobel laureates delivered the 1990 Olin Lecture in Law and Economics during my first year of law school at the University of Virginia. The Caplin Auditorium at the law school was far from full; apparently, even Nobel prize winners can't pack auditoriums on resplendent spring afternoons in the Virginia piedmont. I was at first embarrassed that this great economist had to address a room less than half full, but as Stigler began speaking, my embarrassment turned to gratitude. Although Stigler entertained his audience with his trademark acerbic wit, the content of his lecture was disconcertingly weak.

Stigler advised the luminous professors assembled, and their students, to turn deaf ears to pundits who conclude that any long-lasting government policy is inefficient. Such conclusions, Stigler insisted, are unjustified; government policies in place for years have "met the test of time."¹ A policy's survival is persuasive evidence that this policy serves an appropriate

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1. See Stigler's Olin Lecture in modified form (Stigler 1992, 459).

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goal at minimum cost: “all durable social institutions, including common and statute laws, must be efficient.”²

According to Stigler, analysts too readily pronounce this or that government program “inefficient” because they typically, if unwittingly, use their own preferences and knowledge to form the baseline against which to measure government performance. Instead, the appropriate baseline is “the goals adopted by the society through its government” (Stigler 1992, 459). By this standard, Stigler argues, survival is powerful evidence of efficiency, for inefficient means of achieving a particular social goal are regularly replaced by more efficient means. Once the goal is properly identified (e.g., transfer wealth to domestic steel producers), it is no longer difficult to see certain policies (e.g., tariffs on steel imports) as efficient.

Stigler courageously chose one of the most derided government programs—government subsidies to sugar farmers—to make his case. He concluded that sugar subsidies are not inefficient. Sure, such subsidies raise the prices consumers pay for sugar and other foodstuffs, and consumers would indeed be better off without such subsidies *if* they could be costlessly eliminated. But this “if” clause is the kicker: in fact, sugar subsidies cannot be costlessly eliminated. Whether people like it or not, it is a fact that sugar farmers are a powerful political lobby. Powerful lobbies successfully use the political process to transfer wealth to themselves from people who are not so well organized politically. It is, therefore, a given that sugar farmers will be net recipients of government wealth transfers. For consumers to buy off the sugar-farming lobby would cost more than such a buy-off is worth. We know this to be true because otherwise such a buy-off would have occurred.

Because I was then, as now, an economist sympathetic to most Chicago school policy conclusions, Stigler’s address put me on the defensive with many of my fellow law students. “So, Boudreaux, a Nobel economist from Chicago said right out loud that government intervention is efficient. Waddaya say to *that*, huh?” My self-assured Gucci-leftist comrades treated Stigler’s Olin address as proof positive that opposition by free-market economists to government regulation is, as my comrades had long suspected, intellectually misguided. What further proof is needed after hearing none other than George Stigler reprimand economists for telling the world that government intervention is wasteful?

Wittman on Efficiency

With his 1995 book *The Myth of Democratic Failure* (Chicago: University of Chicago Press), economist Donald Wittman picks up where the late George Stigler left off. Like Stigler, Wittman argues that policies pursued by democratic governments efficiently promote the welfare of all citizens.

2. Stigler 1992, 459. Elsewhere on the same page, Stigler states that “every durable social institution or practice is efficient, or it would not persist over time.”

This Stigler-Wittman claim boldly contradicts the conclusions of most Public Choice (as well as Chicago and Austrian) economists, who argue that democratic politics promotes the welfare of organized interest groups at the expense of politically unorganized people and rationally ignorant voters. According to Public Choice, people who share specific and readily identifiable interests band together for political action whenever their numbers aren't so great as to undermine successful organization. These interest groups then use the political process to extract wealth from politically unorganized people.³ Add to the picture the costs of carrying out these wealth transfers—costs now labeled “rent-seeking wastes”⁴—and the Public Choice conclusion seems inevitable: political processes are socially inefficient.

Or, at least, political processes are less efficient than private-market alternatives. Private-property markets are not biased in favor of groups with low organization costs, and they do not waste resources in wealth-transfer struggles.⁵ Unlike in so-called political markets, where people are rewarded for *transferring* existing wealth, in private-property markets people promote their own interests only by producing new wealth.

Wittman objects to any hard and fast distinction between private-property markets and political markets. “Markets are markets” is his message; “political markets are sufficiently like private-property markets to justify concluding that whatever holds true for private-property markets holds true equally for politics.”

Economics has a long and honorable history of showing that private-property markets work with surprising efficiency. Wittman aims to do for political markets what economics has successfully done for private-property markets, namely, show that appearances of inefficient processes and outcomes are, really, apparitions created by analysts' failure to appreciate the full panoply of constraints and the diversity of human goals operative in reality.

Although he doesn't divide his argument into the following slices, we can identify two parts to Wittman's case for political efficiency. One part is unobjectionable; the other part is mistaken.

The unobjectionable part of Wittman's argument is that elected officials have incentives to eliminate wastes of government operation. Given some type and amount of government activity, it pays no government decision maker to carry out that activity wastefully. Because elected officials are better off with more resources at their command than with fewer resources, there is little reason to suppose that government performs its tasks inefficiently.

3. There are several different ways of telling this basic Public Choice story. For two of the best, see McCormick and Tollison 1981 and Gwartney and Wagner 1988.

4. On rent seeking, see Tullock 1989; Rowley, Tollison, and Tullock 1988; and McChesney forthcoming.

5. See DiLorenzo 1984.

Wittman here is largely correct. There is no good reason to suppose that government performs its tasks less efficiently than do private firms. For example, government probably subsidizes sugar farmers (given all costs and constraints of doing so) about as efficiently as General Motors and Toyota produce automobiles. I respectfully beg the pardon of readers who disagree, for I want to spend my energies on the more startling second part of Wittman's argument: that the social consequences of government activity are efficient. Note the difference separating part one from part two of Wittman's argument. The first part holds merely that government does whatever it does at the lowest possible cost; government does not wastefully pursue *its* goals. This first part offers no welfare analysis of the social consequences of government action. In contrast, the second part assumes that whatever democratic governments do is generally and on net worthwhile and beneficial for citizens and society as a whole. This is a startling and mistaken conclusion.

Wittman reaches his conclusion by equating democratic politics with private-property markets. According to Wittman, "the reward to the political entrepreneur from discovering and exploiting unknown political demands are [sic] analogous to the profits to the business entrepreneur from creating a new market niche" (p. 10). Further, "vote maximization leads to wealth maximization in democratic markets, in the same way that profit maximization leads to wealth maximization in economic markets" (p. 160). Because economists have shown time and again that private-property markets generally work efficiently, it follows for Wittman that "both political and economic markets work well" (p. 1)⁶ Wittman extends the analogy by invoking Adam Smith: "this book develops an invisible-hand theory of efficient democratic markets" (p. 3).

Of course, consumers and investors in private-property markets are well informed and have incentives to make sound decisions. Investors also have incentives to police firm managers against shirking. This arrangement results in private-property markets noted for ingeniously satisfying consumer demands at low cost and in ways that yield attractive returns to wise investors. Each participant in private-property markets profits only by profiting others.

The same situation, insists Wittman, exists in politics. Wittman's case for the social efficiency of democratic government boils down to two ingredients, each of which was in the forefront of the inspiring stories of democratic success recounted by your high-school civics teacher, and each of which corresponds to well-established features of private-property markets: highly informed voters and a wide franchise. Highly informed voters corre-

6. Wittman says elsewhere that "[b]ehind every model of government failure is an assumption that voters are poorly informed, serious competition is lacking, and/or transaction costs are excessively high. Economists are very suspicious of similar assumptions regarding economic markets. This skepticism should be carried over to models of political-market failure" (p. 192).

spond to rational and informed consumers in private-property markets. A wide electoral franchise corresponds to competitive conditions in private-property markets; because voters are free to cast ballots for whomever they choose, there can be no monopolization of democratic governments. With a sufficiently wide franchise, multitudes of well-informed voters replace government officials who fail to serve the public interest with officials who better serve the public interest.⁷ It follows that well-informed voters prevent their government from becoming a toady to special-interest groups.

Indeed, in Wittman's world, knowledgeable voters are unforgiving of politicians who pander to interest groups at the expense of the public weal. Wittman concedes that "[c]ongressmen know that unorganized voters will not fly out to Washington to lobby against a bill" (p. 81), but he asserts that this does not matter because members of Congress also know these same voters "will vote against the congressmen if the congressmen support the [socially harmful interest-group] legislation" (p. 81). In democracies, voters *at large* call the shots.

In sum, Wittman argues the following: Voters are the same people analyzed in models of private-property markets. These people are rational beings, capable of learning and looking out for their own interests. Because voters are knowledgeable, democracy ensures that politics produces socially efficient results. Attempts by politicians and interest groups to gain at the expense of the commonweal *as judged by voters* will quickly be quashed by these same voters. Democracy is sufficient to ensure efficient political outcomes.

Political Markets Differ Greatly from Private-Property Markets

Although Wittman offers much insight and logically sound argument, his book is flawed—fatally so, in my view—by his uncritical use of the analogy between private-property markets and politics. It is undeniable that, as in private-property markets, politics features exchange among rational and self-interested people, political actors confront trade-offs, people compete for political position and favor, and the higher the cost a political decision maker confronts in undertaking an action, the less likely that action will be undertaken. Democratic politics shares these and other features with private-property markets. But the shared features of politics and private-property markets are too few and too shallow for Wittman's Pollyannaish conclusion to follow.

In private-property markets, property rights are continually being bundled together, unbundled, created, and exchanged across time and space according to the wishes of individual property owners. These exchanges are

7. "I argue that voters are highly informed and that there is little shirking" (p. 5).

decentralized. No one is forced to participate in them, and political coalitions need not be assembled to approve any market exchange. All that is required for such exchange is that the individual trading parties reach a mutually acceptable agreement. Innumerable such exchanges occur every moment. The resulting exchange ratios—prices—register the values that buyers as a group (though acting independently of each other) attach at any time to various goods, services, and inputs. No price is ever fixed; all prices are at every moment subject to change reflecting variations in supplies and demands. As F. A. Hayek (1948) pointed out, private-property markets continually collect information from each of the millions (today in many cases, *billions*) of market participants and distill this information into a usable, compact form called money prices. These money prices inform all who care to look of the relative values of different outputs and inputs.

Moreover, in private-property markets, unlike in politics, all property owners (including owners of labor services) have a say in proportion to the value their property has to other people. There is no such thing as a voiceless market participant.⁸ Every time we buy or sell something—or refuse to buy or sell something—we communicate with property owners around the world by adding our “voice” to the market. If you purchase a new Honda Accord today, you reveal to the market that you value such a car by at least the price you pay for it. If you sell some labor services today, you reveal to the world that you will perform such services for a wage at or above the amount your employer pays you. Again, the market continually processes such information into prices available for all to consult.⁹

Any one individual’s voice, of course, seldom has a noticeable effect on market prices, but this fact is so not because individuals have no voice in the market, but because *so many* individuals have voice in the market. No buyer’s or seller’s voice is crowded out or shouted down in markets; all voices combine to create the pattern of prices existing at any moment.

The preceding digression into the role of market prices is necessary to better evaluate Wittman’s claim that politics is similar to private-property markets. In politics, people who speak softly, or who are not members of a dominant crowd, receive nothing from the political process. To raise a political voice requires being part of an interest group. Unorganized consumers,

8. Drawing out the many implications of the fact that secure property and contract rights guarantee voice to every market participant is a major aspect of Ronald Coase’s work. See Boudreaux 1996.

9. The market price system was the world’s first intercommunications network. Across the commercial world, people have communicated for centuries through prices. Like the modern-day electronic Internet, the market price system spans the (commercial) globe and costs its users very little to use. Anyone can “log on” and broadcast a message by participating in market exchange. However, compared to the electronic Internet, the market price system has a much higher information-to-noise ratio. Because people have their own wealth at stake when they buy and sell on the market, market participants have strong incentives not to send out frivolous or incorrect information. Very little “junk mail” is sent out over the market price system.

for example, are politically mute—which is why the United States government forces them to pay between two and three times the world sugar price.

Wittman would respond by saying that consumers (as individual voters) express their voices in the voting booth, and politicians must pay attention to whatever chorus of voices rises from democratic elections. But voices raised in voting booths are chock full of noise, for various reasons.

Even if voters are well informed, perhaps the main source of noise distorting their collective chorus is that so many issues are on the table in each election. Issues from abortion to school choice to government provision of medical services to farm subsidies to child-welfare policies to tax rates to...you name it, government has some potential say over them. Literally tens of thousands of issues are at stake in every national election (with almost as many issues at stake in state elections). And yet, each voter during each six-year span has a maximum of nine ballots to cast in four national elections. During any six-year period (say, from November 1994 through November 2000), each voter is allowed to vote twice for a president/vice-president team, four times for a U.S. representative, and a maximum of three times for a U.S. senator.¹⁰ Apart from the rarely used possibility of citizens voting on proposed amendments to the U.S. Constitution, these nine votes are the only windows of opportunity for American voters to speak politically on national issues.

How can anyone effectively express nuanced opinions on tens of thousands of issues by casting a maximum of nine votes every six years? A voter trying to do so would be similar to a historian trying to compose a complete history of England in only nine monosyllabic words. The available channels of expression are simply too few and too crude to carry the minimum volume necessary of communiqués from writer to reader—or, in the case of democratic politics, from principals (voters) to their supposed agents (politicians).

Wittman might respond that voters don't try to express detailed opinions on every issue but, instead, vote to elect trusted agents to make wise decisions in the name of voters. But this response doesn't avoid the problem of the incredible jamming job done by elections on the voice of The People. Voters don't *really* speak in elections; they pull levers marked with various candidates' names. Because so many issues are at stake in every election, it is difficult for victorious candidates to know why they won. Even with just two issues at stake, this problem is unavoidable. A voter may vote for a candidate because of the candidate's stance on abortion but *despite* the candidate's position on taxes. Thousands of political issues are bundled into a handful of candidates from which voters must choose. No disaggregation of issues is possible in representative democracy.

It is clear that communication by voters in elections shares little with

10. Because of the staggering of U.S. senators' six-year terms, some six-year electoral cycles afford only two opportunities to cast votes for Senate candidates.

communication by consumers in markets. People in markets communicate continually, sending out market signals every day, sometimes many times a day. And these market communiqués occur at a much lower level of aggregation than do electoral communiqués. No buyer must decide which of only a handful of prefilled grocery carts to purchase. (“I really like the leg of lamb in basket 1, but have no need for basket 1’s feminine napkins. Still, all things considered, basket 1 suits me better than basket 2 even though basket 2 has no feminine napkins and does contain a nice bottle of merlot.”) Instead, each buyer in a supermarket purchases those items, and only those items, that he or she wants at the prevailing prices. Each buyer fills the grocery cart with a different mix of items. Market communiqués, therefore, are continuously updated signals about the relative values of millions of individual and disaggregated items. Electoral communiqués, in contrast, are infrequently updated signals about the relative values only of monstrously large bundles of political issues.

Thus, Wittman errs in insisting that voters will necessarily vote against congressmen who pander to interest groups. Interest groups can amass a great deal of pork if such pork is bundled with other government programs and policy issues.

Wittman also errs in suggesting that because people choose efficiently in private-property markets they likewise choose efficiently in political markets. People choose efficiently in private-property markets only because they do so at a very low level of aggregation and because the information they have available in the form of market prices permits efficient choosing. People are not so smart or so wise that they know naturally how best to make all the trade-offs they make so well in private-property markets. Decentrally determined prices make people *seem* smart in the market—or, rather, the pattern of decentrally determined prices, broadcasting in compact form supply and demand data from around the world, serves as a mighty lever for people’s very limited cognitive capacities. Using this lever, market participants create a pattern of decisions that *appears* to be the product of great genius and sublime rationality. Without decentrally determined prices, however, humans are incapable of consistently making correct resource-allocation decisions. Neither voters nor their elected experts have access to necessary market information in the absence of functioning private-property markets. To the extent that politics obstructs decentralized exchange, politics suppresses the very information necessary to accomplish much of what politics ostensibly aims to accomplish.¹¹

And once the information-processing function of decentralized markets starts receding, there is no reason to suppose that voters will recognize the error of their political ways and restore what’s been lost. Markets did not emerge because people in the past made a conscious decision to create and

11. This is the lesson of the socialist-calculation debate earlier in this century. See, e.g., von Mises [1922] 1981; Hayek 1935; and Lavoie 1985.

use them; markets and the legal system supporting them evolved piecemeal over time. Moreover, most people remain wholly unaware of how much they rely on markets. Thus, problems created by political restrictions on markets are quite likely to be ascribed to the personal failings of politicians in charge, to the continued existence of markets elsewhere, or to correctable flaws in the details of the regulatory plan. Unfortunately, democratic voters may well fail to restore market relationships that they unwisely or mistakenly destroy.

No doubt Wittman will disagree that mistaken political restrictions on markets are not destined to be corrected by informed democratic voters. He has a far too optimistic faith in the power of human rationality; he seems not to understand that decentralized competitive markets are justified because even the most intelligent human being is an ignorant creature in light of all the knowledge necessary to keep a commercial society functioning even at a subsistence level.

Consider Wittman's dismissal of Shawn Rosenberg's observation that "people do not have the information-gathering, interpretive, or computational skills required to [make efficient choices] under conditions typical of political life."¹² Wittman dismisses Rosenberg's observation: "With this view of human cognition, one wonders how people could have designed democratic institutions in the first place" (p. 57). This revealing statement exposes Wittman's (erroneous) assumption that people consciously design social institutions. It also suggests (as the rest of his book confirms) that Wittman sees human rationality as a powerful and unrelenting force that allows humans to stand collectively as a Promethean god before all received institutions and consciously redesign these institutions to better suit their desires. It is no surprise that a person with such a view of human rationality would believe, as Wittman does, that voters are well informed and that these well-informed voters inevitably ensure that democratic governments work only to promote the social welfare. Wittman's cheerful conclusions about democracy are inescapable given his assumptions about human rationality.

Noise Pollution

Another source of noise in electoral outcomes has recently been identified by economist Geoffrey Brennan and philosopher Loren Lomasky in their path-breaking book *Democracy and Decision* (Brennan and Lomasky 1993). Although published two years before Wittman's book, Brennan and

12. Rosenberg's quotation is found on page 57 of Wittman's book. For the record, Wittman's chapter 5 discussion effectively exposes the flaws that mar many of cognitive psychology's findings of human choice not empirically corresponding to what adherents of the rational-actor model predict. One may agree with Wittman (as I do) that rational-actor models accurately portray the decision-making logic of typical human beings, but one need not draw Wittman's conclusion that rational human beings are hyperintelligent creatures who can understand the world even without the assistance of market prices.

Lomasky's work receives no mention in Wittman's work. This is too bad, for no argument for the efficiency of democratic choice can safely ignore the Brennan-Lomasky insight.

This insight is straightforward. Because voters in democratic elections know that their individual votes will not determine the outcome of the election, voters have incentives to use their votes to express individual ideology rather than to register opinions about how best to make the mundane trade-offs inherent in the bulk of day-to-day government operations. If your vote won't change the outcome of the election, you incur no material costs of voting for policies that threaten your material interests. For anyone who values personal ideological commitment and expression, ideology exerts a strong influence on how one votes, even if one's ideology is at variance with one's narrow material interests.¹³ As Brennan and Lomasky explain, the indecisiveness of each individual vote reduces to zero the costs to each voter of voting ideologically ("expressively") rather than in accord with material interests. Or as I like to say, the indecisiveness of each vote in democratic elections encourages people to vote romantically rather than realistically. In short, democratic elections emit excessive amounts of romance pollution into the body politic.

My reference to "romance pollution" is not meant merely as a cute phrase; I mean literally that democratic voting causes excessive romance pollution in the same way that unenforced property rights in waterways cause excessive water pollution. Imagine a factory situated upriver from homeowners who use the river as a source of drinking water. If the homeowners' property rights to clean water are not enforced by the courts, the factory owner will dump too many pollutants into the river: the factory owner personally benefits from discharging pollutants into the river while he personally incurs none of the resulting costs.

The situation is the same for voters. Because the indecisiveness of each vote means that each voter incurs no cost for voting romantically, romantically inclined voters discharge excessive amounts of romance into the political waters. Even fully informed voters do so. Thus, the results of democratic elections are not interpretable as the voice of the people informing elected politicians just how to go about making all the mundane trade-offs necessary for the appropriate functioning of civil government. Even if each voter knows such trade-offs must necessarily be struck somehow, a voting popu-

13. Of course, resolving cognitive dissonance often requires people to square their ideology with their pressing material interests. (It is no doubt difficult to find an American sugar farmer ideologically opposed to sugar subsidies.) But no voter has a pressing material stake in most issues on which government exercises authority. The less pressing one's material interest in an issue, the less tightly will one's ideology be bound to one's material interest in that issue. Moreover, some people's ideological commitments are so powerful that such people oppose government programs that serve their material interests. Therefore, ideology and material interests can and do often diverge. The Brennan and Lomasky point applies whenever a voter's ideology diverges from that voter's narrow material interests.

lace filled with romantic notions about the role of government will vote with excessive romanticism.¹⁴ It will be interesting to see if, and how, Wittman grapples with this voting externality in his future efforts to refine his theory of efficient democracy.

Are Voters Really “Highly Informed”?

Recall that Wittman’s thesis rests on two pillars: well-informed voters and a franchise wide enough to give citizens adequate say in how their polity is governed. Let’s look first at his arguments for why voters are sufficiently informed to make wise electoral choices.

According to Wittman, voters are not “rationally ignorant”—they are, for the following reasons, rationally “highly informed” (p. 5). First, voters need not spend much time and effort learning the details of every politician’s stance and record, because most voters know the reputations of various political parties; thus, a candidate’s party affiliation informs voters of candidates’ positions on the issues. Second and relatedly, voters need know only the *relative* positions of candidates with respect to each other; that is, whether candidate Smith is to the left or to the right of candidate Jones. Third, voters learn a good deal about the issues through the news media, political mailings, and conversations with informed friends. Fourth, voters aren’t stupid; they look around and compare the state of their world under one candidate with the state of their world under previous candidates, as well as with the states of other people’s worlds under other candidates. Fifth and finally, voters have incentives to become informed (even if they know their individual votes will not determine the outcome of any election) because better knowledge of the world improves each person’s chances of dealing effectively with the world; for example, to make sensible private investment decisions, voters are better off if they know the candidates’ positions on economic issues and the likely consequences of each candidate’s economic policies.

These are all reasons why voters do not remain totally ignorant, but not reasons for believing that voters are “highly informed” (or even well-enough informed). It is true, for example, that an American voter who knows that candidate Jones is a Democrat and candidate Smith a Republican can plausibly guess that, if all political issues are pinched onto a one-dimensional horizontal line, Jones is to the left of Smith. But this knowledge of relative location in one-dimensional space is too shallow to be useful. Which candi-

14. Legislative examples of the consequences of electoral romance pollution plausibly include the Delaney Clause to the Food, Drug, and Cosmetic Act, which imposes inordinately exacting health standards for food and color additives; the 1980 Superfund Act, which requires that toxic-waste sites be made cleaner than they were before any wastes were dumped on them; and the 1990 Americans with Disabilities Act, which requires owners of public buildings to make their buildings accessible to handicapped people even when such efforts are obviously not worth their costs.

date is more likely to oppose tariffs?¹⁵ Which candidate is more likely to endorse higher grazing fees on government-owned ranges? Which candidate is more likely to oppose efforts to legislate morality? Which candidate will support more open immigration? Which candidate will be the “deficit hawk”? Which candidate will object to sending American troops into places such as Somalia or Bosnia—or Vietnam? Neither these nor many other questions are answered with sufficient accuracy merely by knowing the candidates’ party affiliations or relative positions on a left-right continuum.

Wittman’s reliance on information gathered by voters from the media, mailings, and friends is hardly more helpful. Although such sources may inform voters of candidates’ positions on a handful of issues, they do little to inform voters of the full range of issues and how to analyze them. How many American voters know that the national government subsidizes sugar farmers and peanut farmers? How many Americans understand the consequences of deficit financing? How many can distinguish the government’s budget deficit from the so-called trade deficit? Indeed, how many voters know that most federal regulations can be looked up in the *Code of Federal Regulations*, a document of double-columned small print that now gobbles up about twenty feet of library shelf space? I suspect very few. Although we members of the chattering and scribbling class are often aware of at least a bit of what government does, we forget that most voters—few of whom make a living chattering and writing about politics—have little time to learn about even the broad outlines of what government, politics, and economics are about. And some minimal understanding of these subjects is critical to being an adequately informed voter.

Wittman, though, insists that voters need not be informed about the details of policy issues. Voters need only compare one state of the world with another and decide which is better. Ronald Reagan famously appealed to voters’ sense of comparison by asking during his successful 1980 campaign against President Carter: “Are you better off today than you were four years ago?” There is a superficial validity to Wittman’s point here. After all, people intelligently select automobile mechanics even though most people have no hope of learning to distinguish a lug nut from a fuel pump.

The problem with such analogies is that they fail to distinguish comparisons of simple devices from comparisons of very complex institutions and states of the world. Automobiles are relatively simple devices: people can tell if their cars are operating properly or poorly just by driving them. And be-

15. Among the contenders for the 1996 GOP presidential nomination is as staunch a protectionist as has run for national office in several decades (Pat Buchanan), as well as candidates who proclaim allegiance to free trade (e.g., Bob Dole). The incumbent Democrat, Bill Clinton, also proclaims allegiance to free trade, even though many in his party (e.g., House Minority Leader Dick Gephardt) are unrepentant protectionists. To complicate matters further, proclamations of allegiance to free trade are often politically expedient lies. As president, Ronald Reagan talked a good free-trade line while his administration pursued protectionist policies.

cause there are many cars of every type on the roads, people who own Buick Regals can easily evaluate the performance of their cars by observing how other Buick Regals (and similar cars) operate.

Governments, however, are vastly more complex than automobiles. Genuine problems can persist without being manifest to voters. For example, voters cannot readily tell just through daily experience if the current level of debt financing by government is excessive or not. Moreover, voters get only one government (at each level) at a time. Comparative evaluations are therefore much less trustworthy. If Americans felt less well-off in 1980 than in 1976, was this because of Carter administration policies? Or congressional policies? Or was this malaise due to circumstances quite beyond government's control? Without knowing what government does and how economies operate, voters could not determine if their dissatisfaction in 1980 was a legitimate cause for replacing Jimmy Carter with Ronald Reagan. Although Carter and Reagan campaigned against each other, they never directly *competed* against each other as most firms in the market compete against each other. A Carter presidency did not go head-to-head with a Reagan presidency under identical conditions. In the absence of such genuine (and, hence, genuinely informative) competition, adequately informed voters require direct and detailed knowledge of government operations, history, economic conditions, and economic theory.¹⁶ Alas, voters never attain such knowledge in sufficient quantities.

Wittman is correct that voters have incentives to learn something about candidates (and about how the world works, politically and economically) in order to make better personal investment decisions. But government operations are so vast and intricate today that even voters who spend all waking hours studying government activities have no hope of learning more than a sliver of what governments are up to.¹⁷ The historical, legal, and technical knowledge necessary to become adequately informed is so overwhelming that, contrary to Wittman's suggestion, it does not pay people to gather enough of this information to render them "highly informed." Many voters *do* spend time learning candidates' general stands on fiscal, monetary, and regulatory policies in order to make better personal investment decisions

16. See Macey 1994: "[T]he lack of a pricing mechanism for the value of government services places significant constraints on the efficacy of incentive systems other than jurisdictional competition that might serve as mechanisms for protecting property rights. It is easy for investors to judge the claims of performance made by rival firms, because share price performance of such firms can be readily compared. By contrast, it is extremely difficult for citizens to judge the claims of rival politicians or rival political parties in the absence of a pricing system" (p. 196).

17. Because investment funds are fungible and quite mobile, part of the time citizens devote to learning what governments are up to is spent studying foreign governments. Although such information potentially may lead to wiser votes at home, it is not clear that this is the case. What is clear, though, is that not all of a citizen's time budgeted to studying political matters is time devoted to learning more about political and governmental happenings on the home front.

(e.g., avoiding speculative holdings of U.S. currency if an inflationist candidate wins the presidency). But, again, given the jumbo size of government today, such information will be paltry. Wittman's case for "highly informed" voters is unpersuasive.

Is Democracy Enough?

Highly informed voters form one pillar of Wittman's argument. A wide-enough franchise forms the other, despite Wittman's failure to discuss the franchise in any depth. Although Wittman spends an entire chapter trying to debunk the Public Choice argument that voters are rationally ignorant, he says nothing about the size or scope of the democratic franchise. He merely assumes the breadth of franchise is enough to give a sufficient cross section of citizens adequate say in electoral outcomes.

The centrality of a sufficiently wide franchise to Wittman's argument is evidenced early in the book, when Wittman admits his theory of government efficiency applies only to democratic societies. He concedes that "totalitarian and nondemocratic regimes" are "less efficient than democracies since competition is thwarted and transaction costs are high" (p. 2).¹⁸ Although this remark saves Wittman from the accusation of believing that whatever exists is efficient simply because it exists, his remark puts the burden on him to explain just what it is about democratic voting that avoids the inefficiencies (and, incidentally, the tyranny) associated with totalitarian regimes.

Democracy potentially comes in many varieties. Are all varieties likely to be equally efficient? Once Wittman concedes that some governments (i.e., totalitarian and nondemocratic governments) likely generate inefficiencies, he must explain just how far a government must move on the road from nondemocracy to democracy before it becomes efficient. Surely Wittman would not be optimistic about the efficiency properties of a society that gives the franchise only to non-bald widowed male homeowners above the age of seventy and of Scandinavian descent. This would be a democracy, but my guess is that Wittman would find this franchise too restricted. (Or would he? He doesn't discuss this important issue.) And if not all forms of

18. The closing words of this remark by Wittman are inconsistent with the rest of his book. Here, Wittman regards the consequences of high transaction costs in totalitarian societies as evidence of inefficiencies, but refuses to label as "inefficient" any consequences of high transaction costs in democratic regimes. If high transaction costs cause inefficiencies in nondemocratic regimes, why don't high transaction costs also cause inefficiencies in democratic regimes? At one level of analysis, the only difference between transaction costs in totalitarian regimes and transaction costs in democracies is that the former are higher than the latter. This difference logically should not matter to Wittman. Transaction costs are real costs, and we shouldn't label as "inefficient" the consequences of any costs no matter how high. But at a deeper level of analysis, perhaps Wittman here (rightly) senses that not all transaction costs deserve equal treatment. I argue in the conclusion that some, though not all, costs of transacting can legitimately be accused of giving rise to inefficiencies.

democracy conduce to socially efficient outcomes, then he cannot assume (as he does) that government policies in the United States are efficient just because the United States is a democracy.

Perhaps the franchise in the United States is too narrowly distributed? Or too widely distributed?¹⁹ Perhaps elections are held too infrequently? Or too frequently? Do the voting rules or the committee system used by legislatures muffle the voice of The People so that it is too seldom heard or heeded? Unless Wittman is prepared to say that even the faintest whiff of democracy immediately ensures efficiency, there is no logical justification for his assumption that the franchise in the United States today is adequate to ensure efficient government behavior. And Wittman certainly provides no empirical basis for accepting this implicit assumption. His neglect of the franchise issue is a major shortcoming of the book.

Conclusion

Despite my criticisms of Wittman's book, I sincerely believe it to be a worthwhile contribution. Wittman skillfully, if unwittingly, puts economists (especially Public Choice and Chicago economists) on guard against their too-frequent resorts to "if it exists, it must be efficient" arguments. Longevity of an institution or practice does indeed convey information about that practice—but such information should do no more than create a rebuttable *presumption* that the long-lived institution or practice is efficient. Longevity, much less existence, is not conclusive proof of efficiency. Wittman obliges market-oriented scholars to explore their normative conclusions more deeply.

Wittman's challenge has force precisely because his arguments for the efficiency of democratic government come directly from tried-and-true neoclassical economics—the same economics used to argue generally that markets are efficient and government interference inefficient. Is there something wrong with this mode of economics that it ultimately gags its practitioners from making normative assessments of political outcomes?

I think not, for I disagree with Wittman's assertion that economics necessarily works as a gag on normative evaluations of democratic institutions. Wittman mistakenly equates what is with what's efficient because he con-

19. It is possible that the franchise can be too broad. A wide franchise gives so many people an electoral say that no one feels individual responsibility for government behavior. With millions of people exercising the vote, it's too easy for each person or faction to blame faceless others for observed governmental failures. Apart from suggesting that big government caters only to corporations, there is much truth to Lewis Lapham's recent observation that "[c]hecked and balanced by powers of all denominations, the country's public servants become, in theory, accountable to everybody; in practice they remain accountable to nobody, free to strike attractive moral attitudes while at the same time selling their votes to the highest corporate bidder" (Lapham 1996, 11).

fuses genuine voluntary exchange (which *is* generally efficient²⁰ with imaginary, involuntary, or pseudo-exchange, which is generally inefficient). As we move along the continuum from actual, uncoerced exchanges toward violently coerced transfers, the presumption of efficiency (or “utility maximization”) weakens. At some point this presumption should be dropped altogether.²¹ But by calling democratic politics “political markets,” by uncritically relying on models of exchange to analyze government, and by being blind to differences separating actual voluntary agreement from conceptual or imaginary “agreement,” analysts such as Wittman fail to distinguish between a consumer voluntarily choosing among brands of beer and a citizen voluntarily choosing not to emigrate in the aftermath of an election in which a majority of citizens elevate to power a party that promises to confiscate much of this citizen’s liberty and wealth.

It is true that because of transaction and other costs, markets—like politics—often disappoint their participants. But there is a fundamental difference between transaction costs in private-property markets and transaction costs in politics. Decentralized, voluntary private-property markets are rife with incentives for people to minimize transaction costs. Entrepreneurs make no money if consumers find it too costly to transact with them. Of course, to minimize is not to eliminate. Many transaction costs are unavoidable; it is juvenile to whine about unavoidable costs. Observed market responses to these costs (e.g., advertisements informing consumers of product availabilities) are signs not of inefficiency but of efficient attempts to deal with *unavoidable* constraints.

Politics, in contrast to markets, often *creates* unnecessary transaction costs (Twight 1988; Twight 1994; Crew and Twight 1990). For example, the high transaction costs that prevent ordinary consumers from learning about, and objecting to, sugar subsidies are largely an artifact of the political structure as well as of the government’s having chosen to subsidize sugar farmers in the first place. Special-interest groups that manage to grab seats at the political bargaining table have incentives to use the political process to make it more difficult for other interest groups to get seated and for opposing voices to be heard. In other words, those currently with effective political voice have incentives to create transaction costs that mute the political voices of others. In the absence of coercively extracted sugar subsidies, consumers could each voluntarily choose whether or not to support domestic sugar farmers. Such support would be costly to each consumer, of course, but these costs would be unavoidable features of reality rather than man-made (and designed) barriers.

20. “Thus the efficient policy is the policy which preserves the maximum range of action for individuals to pursue their personal ends” (Zywicki forthcoming). This quotation appears on page 11 of the typescript.

21. On the important and often-unappreciated role of presumptions in legal and political thinking, see Randy E. Barnett’s fascinating essay “Forward: The Power of Presumptions” (Barnett 1994).

A relevant question in debates about the efficiency of this or that activity is the variability of observed constraints. Almost everyone who thinks about it must concede the physical impossibility of, say, making consumers better informed absent advertising expenditures. Such a “knowledge constraint” is firm, unavoidable, and not the product of human design. But political constraints are often not so firm or firmly grounded in unavoidable reality. It seems less absurd or whiny to complain about sugar subsidies than it does to complain that food or information is costly. The latter is to complain about the unchangeable state of the world; the former is to complain about matters that can be changed. It’s all very well for hard-nosed economists to insist that people should be aware and realistic about the necessity of trade-offs. But economists must not refuse to see that not all trade-offs are created equal. Some trade-offs are utterly unavoidable while others are contrived.

Political constraints produced by human design are potentially avoidable through conversation and persuasion, which are the stuff of intellectual and political discourse. To suggest that people are whiny or mistaken whenever they lament the outcomes of democratic processes is to criticize people for their political advocacy. One hopes that Donald Wittman—along with my fellow law students—does not believe that political advocacy is necessarily futile or juvenile or even inefficient.

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BOOK REVIEWS

◆ **The Vision of the Anointed:
Self-Congratulation as a Basis for Social Policy**

By Thomas Sowell

New York: Basic Books, 1995. Pp. 305. \$28.95 hardcover.

The idea that humanity can be analyzed into two major competing groups has stimulated many types of social theory. Marxist theory has occupied itself with the conflict between capitalists and proletarians. Certain kinds of modern-liberal theory have attempted to elucidate relationships between a managerial class and the populace that it tries to manage. Classical-liberal and conservative theories have focused on the conflict between people who produce wealth (whether these be considered capitalists or workers) and people who govern but do not produce.

In *The Vision of the Anointed*, the distinguished economist and social theorist Thomas Sowell makes an important contribution to classical-liberal and conservative thought by scrutinizing the ways in which a self-consciously elite, or “anointed,” group uses ideas to maintain its power in American political life. Sowell regards American political discourse as dominated by people who are sure that they know what is good for society and who think that the good must be attained by expanded government action. This modern-liberal elite exerts its influence through institutions that live by words: the universities and public schools, the media, the liberal clergy, the bar and bench. Its dominance results from its command of the information that words convey and the attitudes that words inspire.

People who live by words should live also by arguments, but—as Sowell richly documents—the modern-liberal elite is not so good at arguing as it is at finding substitutes for argument. Sowell analyzes the major substitutes. Suppose that you doubt the necessity or usefulness of some great new government program. You may first be presented with a quantity of decontextualized “facts” and abused statistics, all indicating the existence of a “crisis” that only government can resolve. If you are not converted by this show of

evidence, an attempt will probably be made to shift the viewpoint: *outsiders* may doubt that there is a crisis of, say, homelessness, but “spokesmen for the homeless” purportedly have no doubts.

There may also be an attempt simply to declare victory by relabeling current political proposals as inherent rights: it will be announced, in vague yet dogmatic terms, that everyone has a right to decent housing and that government is therefore compelled to provide it. If necessary, substantiation for this new right can be discovered in a Constitution that means whatever the latest school of jurists decides that it means.

If even these methods fail to win you over, attention will be redirected from the political issue to your own failure of imagination or morality. It will be insinuated that people like you are simplistic or perversely opposed to change, lacking in compassion and allied with the “forces of greed.” (As Sowell observes, it is always the payers rather than the spenders of taxes who are considered vulnerable to the charge of greed.)

Perhaps the most potent of all the “tactics in lieu of arguments” that Sowell studies is the practice of assessing political programs by their supposed moral intention instead of their visible effect. Thus, a “poverty program” can always be justified by its compassionate motive, even if it turns out to have a disastrous impact on the poor. The opponents of such programs can be blamed for their hard-heartedness.

These are the kinds of argumentative fallacies that occupy a crucial place, as Sowell shows, in the discourse of influential modern-liberals. Reviewing his evidence, one naturally thinks of the old question from Jeremy Bentham’s *Book of Fallacies*: Is it credible that the “inanity and absurdity” of such arguments “should not be fully manifest to those persons who employ them”? In other words, how can people who argue like this possibly be sincere? Sowell’s answer is precise and compelling: “People are never more sincere than when they assume their own moral superiority” (p. 3).

Power, it might be added, is a mighty aid to this kind of sincerity. The vision of the anointed requires that vastly enlarged powers be given to social planners, economic policymakers, moral educators, and implementers of newly devised constitutional mandates. These powers will be exercised by people who share the anointed’s ideological assumptions and modes of political action. The mutual reinforcements of ideology, political position, and habits of common work are sufficient to constitute a governing class.

The anointed’s ideology, however, functions better as a social bond than as an intellectual tool. An intellectually useful social theory, as Sowell indicates, must have a mechanism that allows it to

adjust to evidence, to come back into line with the facts. One theory may be more plausible, or even more sound, than another, but if it is also more dogmatic, then that can make it far more dangerous than a theory that is not initially as close to the truth but which is more capable of adjusting to feedback from the real world. (p. 7)

But Sowell's analysis of the past thirty years of modern-liberal ideas—distinguished, as they are, by a pious faith in the efficacy of government and a mordant skepticism about the benefits of spontaneous, free-market processes—shows that in this case feedback mechanisms are either feeble or nonexistent. The mountainous evidence for the failure of modern-liberal experiments would startle any disinterested observer. Yet this evidence convinces few of the experimenters that something could be structurally wrong with their theories.

As a free-market economist, Sowell is interested in identifying the incentives that intelligent people have for indulging and reproducing a vision that has lost its connection with reality. "What," he asks, "does the vision offer that reality does not offer?" (p. 2). His response is suggested by the vision's emphasis on moral dispositions:

What a vision may offer, and what the prevailing vision of our time emphatically *does* offer, is a special state of grace for those who believe in it. Those who accept this vision are deemed to be not merely factually correct but morally on a higher plane....For those who have this vision of the world, the anointed and the benighted do not argue on the same moral plane or play by the same cold rules of logic and evidence. (p 3)

Sowell's approach to what Marxists call the sociology of knowledge complements that of Friedrich Hayek, who in *The Road to Serfdom* (Chicago: University of Chicago Press, 1976 [1944], pp. 136, ii) showed how "high moral motives" blinded "the socialists of all parties" to the defects in their plans for social engineering. Another analogue to Sowell's approach is that of Isabel Paterson, who in *The God of the Machine* (New Brunswick: Transaction Publishers, 1993 [1943], p. 242) showed how modern humanitarians' conception of themselves impelled them to advocate "the use of the political power in its fullest extension."

Sowell's more distant intellectual ancestors include Edmund Burke and other critics of the French Revolution. Burke, whom Sowell quotes to good effect, reproved radical liberals of his time for assuming that they, or anyone else, could know enough about society to remold it nearer to their hearts' desire. Sowell traces the intellectual ancestry of today's anointed to such eighteenth-century worthies as Jean-Jacques Rousseau and William Godwin, men who trusted themselves to devise a new and improved mankind.

To the vision of the anointed, Sowell opposes "the tragic vision" that he shares with Burke. The distinctions that Sowell draws between the two visions are numerous, accurate, and intellectually provocative. The tragic vision is "tragic" because it recognizes that this is a world of limited options, a world in which all the anointed's proposed solutions to social problems impose their own inescapable costs. The tragic vision treats these costs as crucial, not merely incidental. It therefore inclines to caution. It encourages people to make incremental, not categorical, decisions—to safe-

guard, for example, the processes that can reduce poverty, rather than to decree that poverty must simply be abolished. The tragic vision favors the provision of practical incentives rather than attempts at the reform of dispositions. It relies not on the deliberate social planning of the few, but on the diffusion of decision-making processes throughout the social system. It regards limitations on power as both necessary and healthy.

By Sowell's account, the tragic vision offers a much better chance for progress than the feckless optimism of the anointed. In certain respects, "tragic" would actually be a better word for the anointed's own vision. Among that vision's potentially tragic flaws is the classic vice of arrogance. About one thing the anointed are decidedly unoptimistic—the possibility that anyone else could get anywhere without their leadership. Their vision is, however, increasingly vulnerable to the disappointments of the people who have invested in it, people who must pay a steadily increasing intellectual price to preserve their confidence against concrete evidence of the vision's flaws.

With this in mind, one regrets that Sowell has ended his book where he has. He brilliantly analyzes the ideas of the anointed, but he does not provide a comparably substantial account of the processes that can cause those ideas to be reexamined and replaced by better ones. Sowell is superbly qualified to explore that subject. One hopes that he plans to do so in an early sequel to his current book.

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♦ Constitutional History of the American Revolution

By John Phillip Reid

Abridged Edition. Madison: University of Wisconsin Press, 1995. Pp. xx, 170. \$15.95 paperback.

This abridged version of John Phillip Reid's monumental four-volume history of the American Revolution is a welcome addition to the texts on that event in particular and the development of early American constitutionalism in general. Reid, a professor of law at New York University and one of the country's most distinguished legal historians, has devoted more than a decade to rewriting the constitutional history of the Revolution. The first of these volumes, *The Authority of Rights*, appeared in 1986, followed by *The Authority to Tax* (1987), *The Authority to Legislate* (1991), and finally *The Authority of Law* (1993). In each instance, Reid challenged the received historiographical wisdom on the coming and consequences of the Revolution. The current volume ties his arguments into one neat package, giving the general reader a lively overview of this important subject.

Reid's position, while nuanced, is clear. He begins by critically assessing

the existing scholarship, taking special aim at what he calls the “ideological school” of historiography, associated primarily with the writing of Joyce Appleby and Jack P. Greene. These new ideological historians de-emphasized the importance of studying individuals and the ideas that they articulated and, instead, insisted on highlighting the way societies constructed reality through shared discourses. Borrowing from social psychology, the new cultural history, and critical literary theory, with its emphasis on deconstruction of texts, these scholars concentrated on the assumptions, traditions, conventions, values, and habits of thought that underlay the Revolutionary movement. This approach, however, placed little value on constitutional documents and legal authority *per se*; instead, it treated them as one part, and a small part at that, of the larger structure of ideas at work in the world of the Revolutionaries. Law and constitutionalism in the hands of the new ideological historians not only shrank in importance, but were also represented as having minor significance in the thinking and actions of educated Revolutionary leaders. Most important, the ideological historians tended to equate constitutionalism with the fungible concepts of politics rather than recognize it as a principled expression of deep-seated belief in the law. The law, these scholars claimed, had largely failed as a guide in the midst of the Revolution’s constitutional crisis. The apparent attachment of Americans to law and legal discourse was more a way for them to work out their concerns with what they believed to be a grand conspiracy by the crown to steal their liberty than an argument about the limits of their own authority to rebel.

Finally, the ideological school, in attempting to occupy the middle ground between constitutional history as it had traditionally been practiced and the new cultural history, ended up swallowing whole the concept of “republicanism.” Few phrases, Reid wisely notes, have come to explain so much yet mean so little in analytical terms. Republicanism generally had civic virtue as its chief goal. According to this rubric, persons agreed to bury their self-interest in the greater good of the commonwealth. As Reid argues, however, there was hardly one definition of republicanism at the time of the Revolution, either in the colonies or in England. The term became something of an intellectual catchall that expanded as more scholars tried to pour meaning into it only to have it become increasingly vague, even elusive. By explaining everything, republicanism ceased to explain anything.

The point of Reid’s scholarship has been to read the law and constitutionalism back into the story of the American Revolution. His argument, however, is not that “law alone explains the coming of the American Revolution, or even that all the ideology shaping the pre-revolutionary controversy was constitutional” (p. xv). Instead, Reid insists that to the extent that the causes of the Revolution were ideological, they were arguments about constitutionalism, which occupied the core of eighteenth-century thinking about government. Far from being antagonistic, the approaches of the ideological school and of Reid’s concerns with constitutional thought

and development are reciprocal and reinforcing. Reid, for example, stresses the importance of constitutional values to debates at the local level, showing that such concerns were not the exclusive province of major political leaders, such as Madison and Hamilton. Moreover, Reid finds that Americans and the inhabitants of Great Britain were animated by a common desire: to live under a rule of law. In this sense, the Americans were not rebelling but instead attempting to restore an understood relationship between government and the governed in which the former owed a duty to the latter based on law. It was, in fact, the arbitrary actions of the English Parliament that stirred resentment and prompted the colonists to demand that they be treated like what they thought they were—Englishmen.

Reid argues that the Revolution concerned not just Parliament's ability to impose internal taxes on the colonies, but Parliament's ability to impose any laws on the colonists. According to Reid, the empire faced a dichotomy of two constitutions. On the one side of the Atlantic the British envisioned Parliament as the sovereign source of all civil rights, whereas on the other side the Americans clung to the concept of a sovereign limited by the fundamental rights of citizens. American constitutional theory, therefore, was a reaction to Parliament's efforts to prevent the resurgence of monarchical power. In this struggle, the colonists aligned themselves with the Crown, which they viewed as a check against arbitrary legislative action.

This view also adds a dimension to our understanding of the role of economic considerations in the Revolutionary generation. The so-called Progressive historians, such as Charles Beard, acknowledged that the Revolution represented a constitutional crisis involving both home rule and who should rule at home. These historians stressed the essential hypocrisy of the American leaders; that is, behind the mask of constitutionalism lurked greed and avaricious economic self-interest. Yet Reid brilliantly argues that even the most militant colonial advocates of the Revolution were willing to have trade regulated by the Parliament so long as it was done under a rule of law that applied with equal force throughout the empire. The English Constitution was in crisis, in that regard, because the monarchy could no longer play the central role of restraining Parliament from arbitrarily disrupting the rights of British citizens.

The most important contribution of Reid's work is its emphasis on the concept of the rule of law. The Revolutionary generation invoked legal language to animate the concept of republicanism and give operational meaning to the idea of civic virtue. No one, according to Reid, could be virtuous without embracing the concept that law prevailed over persons and that its commands were necessary to realize the ambitious goals of republican political theory. One of the chief arguments to emerge from this emphasis on the rule of law was an insistence that the judiciary, through the doctrine of judicial review, had a critical role to play in limiting legislative power. The ability of judges to review legislative acts on independent constitutional grounds gave expression to both the rule of law and the concept of

constitutionalism. Where the English had insisted on the power of Parliament to determine what was constitutional, Americans ultimately resorted, when the monarchy was no longer able to do so, to the judiciary as the final interpreter of what was constitutional. That development, Reid argues, was a singular contribution of the Revolutionary era, one not sufficiently appreciated by the ideological school. As Reid concludes, when viewed in this way, “[r]epublicanism is, in large part, constitutionalism recycled under another label” (p. xvi).

This abridged version of Reid’s scholarship has the enormous advantage of accessibility. It stands out as perhaps the most convincing exposition of the idea that law counted in the American Revolution, that constitutional values were central to action as well as thought, and that the outcome of the Revolution sent Americans moving in a direction far different from that of their English counterparts. Consequently, Reid concludes, the Revolution is best understood as a major turning point in thinking about the relationship of the government to the governed. Ironically, such an approach reaffirms the insights of the now much maligned nationalist historians of the Revolution. They too stressed that the Revolution was a profoundly constitutional event, in which the chief result was to tame the whim of legislative authority. Reid is smart enough to realize that such interpretation, based on a simple dichotomy between patriots in search of liberty and imperialists bent on tyranny, does not suffice, but he also acknowledges what the new ideological school is prone to forget: that concepts of liberty, freedom, and justice counted for a great deal among the Revolutionary generation.

Reid, of course, has suffered many critics, especially scholars who insist on a different way of understanding what constitutes ideology and who also claim that Reid gives too much credence to the formal aspects of law, lawyering, and judging. Although such complaints surely remind us to broadly examine Revolutionary-era ideology and interests, they significantly undervalue the Revolutionary generation’s concerns about how to break the law while remaining legal.

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♦ The Constitutional Thought of Thomas Jefferson

By David N. Mayer

Charlottesville and London: University Press of Virginia, 1994.

Pp. xiv, 397. \$39.50 hardcover.

Thomas Jefferson continues to fascinate scholars. A voluminous literature examines his long public career and extensive comments on political issues. Historians have shown particular interest in exploring the elusive philosophical underpinnings of Jefferson’s political persuasions. David N. Mayer

makes a valuable contribution to this debate with his comprehensive study of Jefferson's constitutional principles as they matured from the 1760s to the 1820s.

Mayer identifies three sources that shaped Jefferson's thinking about constitutional questions. From the English Whig tradition, Jefferson derived the notion of a constitution as a check on the power of government in order to protect individual rights. The federal aspect of his thought emphasized the division of governmental authority into state and national spheres, each of which was further divided into distinct executive, legislative, and judicial branches. Jefferson also gave special weight to the republican character of government, in which governmental authority rested on popular sovereignty and majority rule. Mayer points out that Jefferson's constitutionalism developed over time and was often influenced by the course of political events. Rejecting criticism that Jefferson as president did not always act in conformity with his previously articulated views, the author maintains that Jefferson's use of power was remarkably consistent with his constitutional theory.

There is much to commend in this important book. Mayer happily moves beyond the tired debate over "liberalism" and "civic republicanism" that dominates the current historiography of the Early National Era. He contends that any attempt to pigeonhole Jefferson into modern categories threatens to distort our understanding of Jefferson's constitutionalism. Rather, Mayer elucidates Jefferson's thought on its own terms, and provides a thorough and disciplined account of Jefferson's constitutional ideas. In so doing, the author skillfully probes Jefferson's views on a variety of issues, including religious liberty, free speech, and slavery.

Mayer casts light on some of the fundamental issues in American constitutional history. One major interpretative problem grappled with by historians concerns the place of property rights in Jefferson's thought. Because Jefferson substituted the "pursuit of happiness" for property in the Declaration of Independence, some historians have argued that he did not regard property ownership as a natural right. It appears that Jefferson never systematically dealt with the topic of property rights. After reviewing Jefferson's somewhat contradictory observations about the nature of property ownership, Mayer suggests that Jefferson saw property as having elements of both natural and conventional rights. Jefferson was not bothered by inequality of wealth. Indeed, he asserted that heavy taxation of the wealthy to produce greater equality would violate natural law. As noted by Jean Yarbrough ("Jefferson and Property Rights" in Ellen Frankel Paul and Howard Dickman, eds., *Liberty, Property and the Foundations of the American Constitution*. Albany: State University of New York Press, 1989, pp. 69–71), Jefferson never endorsed any sweeping scheme of property redistribution. Yet at the same time, Jefferson was prepared to overhaul inheritance laws to encourage widespread property ownership. He urged the abolition of primogeniture and entail on the grounds that these devices artificially ham-

pered the transfer of land and undermined equal opportunity to acquire property.

In addition, Mayer persuasively analyzes Jefferson's famous maxim that "the earth belongs in usufruct to the living." According to the author, this phrase encapsulated Jefferson's concept of generational sovereignty. Although originally couched in terms of restricting the duration of laws and debts to a particular generation, this radical idea was transformed into a more generalized belief in constitutional experimentation. Unique among his contemporaries, he welcomed periodic constitutional change. Mayer pictures this favorable attitude toward change as "the hallmark of Jefferson's constitutional thought" (p. 296). Jefferson was more concerned with responding to new circumstances and the will of the majority than with preserving stability of government. He urged frequent resort to the amendment process as a means of vindicating popular control. By the same token, he was hostile to constitutional development through judicial interpretation.

Throughout the volume, Mayer is sympathetic to Jefferson, absolving him of charges of hypocrisy and expediency in applying his constitutional theories. There is room to suggest that Mayer may have painted an unduly generous portrait of Jefferson the constitutionalist. For instance, he gives only brief attention to Jefferson's failed attempt to revise the criminal code of post-Revolutionary Virginia. Yet Jefferson's proposed changes, as discussed by Kathryn Preyer ("Crime, the Criminal Law and Reform in Post-Revolutionary Virginia," *Law and History Review* 1 [Spring 1983]: 56-70), contained a curious blend of reform elements and harshly reactionary features. Although the bill limited capital punishment, it prescribed severe punishments, such as castration for rape. The plan also retained the ancient crime of petty treason, perhaps as a deterrent to the murder of masters by slaves. Obviously these provisions do not fit modern views of penal reform, but evidently Jefferson found them congruent with his vision of republican government. Jefferson's efforts to alter Virginia's criminal code may tell us more about his thinking than the heralded but largely symbolic abolition of primogeniture and entail.

Moreover, Jefferson was involved in numerous political controversies during decades in public life, and it is probably asking too much to expect consistent pronouncements and deeds on a variety of heated issues. Accordingly, Mayer labors with only partial success to show Jefferson's fidelity to his principles. On the important question of states' rights, Mayer observes that what changed "over time was not the essential theory of federalism but the side of the balance that Jefferson chose to emphasize" (p. 186). Yet it too often appeared to this reader that Jefferson's point of emphasis was dictated by political considerations of the moment. In 1798, while leader of the opposition, Jefferson authored the Kentucky Resolution, in which he stressed the limited authority of the federal government and argued that the states could determine for themselves violations of the Constitution. Once in a position of authority, however, Jefferson felt less confined by the prin-

ciples of strict construction. The Louisiana Purchase rested on an expansive reading of implied powers of the executive branch and had significant implications for federal-state relations. Mayer gamely justifies Jefferson's apparent departure from the doctrine of strict construction by emphasizing Jefferson's private misgivings about the constitutionality of the Purchase. But such an explanation cannot disguise the gulf between Jefferson's actions and his professed commitment to limited government. Mayer more accurately judges that "the acquisition of the Louisiana territory did set a precedent for broad exercise of federal powers" (p. 216). By 1820 Jefferson, now in retirement, shifted gears again and vigorously opposed the nationalist tendencies of the Marshall Court. One might well conclude that federal power was suspect to Jefferson when he was not wielding it.

Jefferson's attitude toward judicial review was similarly migratory. He was initially receptive to some type of federal judicial oversight of legislation. Indeed, he took the position that a bill of rights would give the federal judiciary a basis on which to safeguard encroachments on liberty by the other branches of government. However, responding to Federalist control of the courts and the Sedition Act trials, Jefferson later rejected the doctrine of judicial review in the 1790s. Rather, he espoused a tripartite theory of constitutionalism under which each branch of the government was free to interpret the Constitution and decide the validity of an act. Fueled by an abiding distrust of Chief Justice John Marshall, Jefferson came to rely upon the people rather than the federal courts to resolve constitutional difficulties. Not surprisingly, Mayer concedes that Jefferson's outlook "was a result-oriented approach, to which he had been pushed by the force of political circumstances" (p. 290).

The author might also have profitably considered the impact of personal problems on Jefferson's thought. Herbert E. Sloan (*Principle and Interest: Thomas Jefferson and the Problem of Debt*. New York: Oxford University Press, 1995) has recently argued that Jefferson's chronic indebtedness influenced his opposition to Alexander Hamilton's economic program and drove Jefferson's insistence on frugal government. This raises the broader question of whether Jefferson's constitutional outlook was deeply colored as much by his personal experience as by any ideology.

Mayer's account of Jefferson's constitutional thought raises some fundamental but unanswered questions. Did Jefferson fashion a coherent philosophy or simply express a series of ad hoc responses to events? Were Jefferson's dire pronouncements in the 1820s a reflection of his mature constitutional theory or a sad *crie de coeur* for a lost vision of the new nation? What if the people, in whose virtue Jefferson placed so much confidence, proved less than devoted to individual liberty and state autonomy? Mayer declares that Jefferson's unbounded faith in the people prevented him from recognizing that majority rule could threaten freedom, but he does not pursue the implications of this insight. Does it signal the ultimate bankruptcy of Jefferson's constitutionalism?

These caveats do not detract from Mayer's achievement. To explain Jefferson's baffling and shifting theories of government is a daunting task for the most accomplished scholar. If perhaps overly sunny in assessing Jefferson's constitutionalism, Mayer has provided an essential framework for studying Jefferson's views about law and government. This rewarding volume deserves wide attention.

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♦ **Golden Rule:**

The Investment Theory of Party Competition and the Logic of Money-Driven Political Systems

By Thomas Ferguson

Chicago: University of Chicago Press, 1995. Pp. viii, 432.
\$17.95 paperback, \$55.00 hardcover.

Thomas Ferguson has worked for fifteen years to make two claims about democracy in the United States. First, "rule by the people" is a sham, and always has been. Second, the social "sciences" have badly botched the job of finding out why. *Golden Rule* is a collection of some highlights of this work, and anyone who wants to understand politics in America ought to read it.

Four of the six essays and the appendix have been previously published in some form, but these have been revised and extended, some significantly. Chapters 5 and 6 are published here for the first time, and extend the thread begun in Ferguson's book with Joel Rogers, *Right Turn: The Decline of the Democrats and the Future of American Politics* (New York: Hill and Wang, 1986). The introduction is tart, and states the common themes of the essays succinctly: Ferguson began this work

because I was convinced that modern students of politics resemble adherents of Ptolemy in a Copernican world—and the now fashionable "rational choice" approaches to analyzing electoral systems produced not rigor but mortis. It was high time, I thought, to spell out precisely what was wrong with the celebrated "median voter" approach to electoral democracy and to put forward a clear alternative, in which—as long as basic property rights do not emerge as the dominating issue—competition between blocs of major investors drives the system. (pp. 9–10; emphasis in original)

The claim that the "median voter" misleads scholars of industrialized democracies is where Ferguson has invested most of his attention, and with this argument his work stands or falls. Before assessing the argument directly, let's recall some intellectual history on wealth and government.

Following the Money

The idea that it is possible to translate concentrations of economic power into political power is venerable. Adam Smith, in *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776, vol. 1, bk. 1, chap. 10), cautions: “People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.”

For Marxists, of course, the observation that owners of capital, and not workers, control government is axiomatic. In Karl Marx’s *Capital* (vol. 2, chap. 21) we are told: “When commercial capital occupies a position of unquestioned ascendancy, it everywhere constitutes a system of plunder.” Now, if capital (or any other group) subverts government to its own ends, “system of plunder” seems a fair description. But how is this “position of unquestioned ascendancy” achieved? Marx’s bluster aside, there is little in classic Marxism that accounts for the role of money in politics.

Some observers have called Ferguson’s analysis Marxist, but he would more accurately (and aptly) be labeled a “Fergusonian.” Adam Ferguson (1723–1816) was a philosopher-historian of the Scottish Enlightenment, a contemporary of Adam Smith. His two major works, *Institutes of Moral Philosophy* (1769) and *Principles of Moral and Political Science* (1792), are in several ways superior to Marx’s better-known writings nearly a century later.

Adam Ferguson’s main thesis was that differences in status in the workplace, and in the community based on wealth, extend to differences in power in the political and social setting in which work takes place. Thus, the accumulation of wealth, from whatever source, creates a demand for perpetuation of privilege. Wealth also affords a disproportionate influence over government policy. People with money share interests with the other wealthy, and recognize the need to use their power to make sure those interests are protected.

Modern political science has made little use of this approach. More recent work on contributors has tried to rationalize why money matters *at all* in politics, rather than to gauge its effects. The difficulty, as I have argued elsewhere (with William Mitchell, in “Economic Theories of Interest Groups: An Introductory Survey,” *American Journal of Political Science* 35 [1991]: 512–46), is that if voters are well informed and bribery is illegal, money has no function, and can therefore have no effect.

Our two Fergusons will have none of this. Voters might want (if anyone asked) more government support for unions, less price regulation that ensures profits for railroads, or a national health-care plan. But no one asks: voters never get a chance to choose policy directly because all they do is select representatives. And representatives need money to have any chance of winning an election. Thomas Ferguson calls this the “campaign cost condition,” and places it at the center of his theory of the dynamics of American politics.

There are two additional aspects of Ferguson's theory worth pointing out. The first is the claim that competition among moneyed interests is unlikely to solve the problem of access to the agenda. Ferguson calls this the "principle of noncompetition across investor blocs," noting that "on all issues affecting the vital interests that major investors have in common, *no party competition will take place*" (p. 28; emphasis added).

Second, Ferguson argues that although elections do not simply go to the highest bidder, only access to money from investors makes a real campaign possible. Since representatives need money to get elected, they can't take positions unpopular with moneyed interests, though those positions would win in the "perfectly informed voters" world of the median-voter theorem. Voters cannot overcome the transaction costs of pooling their resources, so they must accept the choices offered.

Ferguson is openly scornful of any approach that takes as its explicandum how voters choose, *given* the alternatives. The perceptive reader will note that this criticism of rational-choice theory by Ferguson actually applies with equal force to Michigan-style "psychological" approaches to the study of politics. The question of what factors lead voters to vote one way or another is trivial: all the choices are the same on key issues. The key to American politics is to understand where ballot choices come from, and to do that one must "follow the money."

Consequently, proposed "reforms" such as changes in the electoral system (creating a third or fourth party, limiting spending, or imposing term limits) or changes in the electorate (less restrictive registration laws or better voter education) are red herrings. Ferguson claims the problem is that voters are too poor, not too stupid or too lazy, to get what they want.

An Assessment

The argument in *Golden Rule* has three parts. The first is a critique of the median-voter theorem as a predictor of policy processes. Other scholars, including Robert Higgs, Melvin Hinich, and Douglass North, have leveled such criticisms recently, but Ferguson's critique is unique, well thought-out, and clearly documented. The second component is his evidence for the importance of money in deciding who wins elections. Ferguson excels at archival research, and he writes well. The new essays, on the 1988 and 1992 elections, are particularly interesting.

The final portion of the argument fares much worse. Ferguson's investment theory is supposed to be an alternative to the median-voter model, but he never offers anything a formal modeler could use to describe this theory, in spite of his claims: "The argument can be developed with any degree of detail and formal rigor" (p. 381). Perhaps it can be, but the job isn't done here.

The "comparative statics" of his theory are simple: if moneyed interests want constancy, that's what they get, until they want change, which they also get. Ferguson claims no one can emerge as a contender without the full

support of the veto-bearing barons of power, so no real choices are ever presented to voters. But if we can't observe the counterfactuals required to test the theory on positive grounds, or compare it to alternatives on some normative basis, what do we do? In particular, what is a *fair* way to hold elections? Who would win, and what would change?

Another problem is that there are some small difficulties with the way the book is put together. One jarring note is that there are no collected references, but brief references at the end of each essay instead. Chapter references do identify discrete sections of literature, but they seemed to me to call even more attention to the fact that this is really an edited volume rather than a book. The first four essays, in particular, seem like a collection of vignettes.

Finally, and most discordantly, several essays have been rewritten after the fact to answer critics. Two of the critics, Michael Webber and William Mayer, come in for special abuse. This diversion to take on criticism that many readers will not even know about is confusing, and seems more defensive than informative.

Fortunately, most of the book reads very well and is written clearly. Minor shortcomings aside, *Golden Rule* works well as a collection, and represents an important challenge to orthodox conceptions of politics and public-choice theory.

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♦ **Dismantling Utopia:**

How Information Ended the Soviet Union

By Scott Shane

Chicago: Ivan R. Dee Publisher, 1994. Pp. 292.

\$14.95 paperback, \$25.00 hardcover.

Scott Shane's book deals with the major event of the late twentieth century: the demise of Soviet socialism. Having been a correspondent for the *Baltimore Sun* in Moscow during Mikhail Gorbachev's perestroika, Shane has witnessed firsthand the spectacular failure of the numerous attempts by Gorbachev's government to "reform" and "perfect" the socialist system and how those attempts composed the final stage of Soviet socialism.

Shane rightly regards the dismantling of socialism as an unintended consequence of perestroika. Unlike most American journalists, who created a cult of Gorbachev's personality in the West, Shane believes that the last Soviet dictator "set out to renew socialism, not to destroy it, to make the empire stronger, not to break it apart" (p. 5). To underscore the futility of Gorbachev's efforts, Shane quotes the witticism of the Russian historian Leonid Batkin, who "once compared Gorbachev with an apocryphal old man

who was said to have pulled the chain to flush his toilet at the precise moment of the Tashkent earthquake. 'If I'd known all that was going to happen,' the man is supposed to have said, emerging from the rubble and surveying the devastation, 'I never would have pulled the chain in the first place'" (p. 5).

Shane views the breakup of the Soviet Union as the logical outcome of the absence of the market, the essential means by which complex societies transmit information. This critical lack became the major impediment to growth and development, especially in our age of rapid advance in information technology.

He further characterizes socialism as a utopia based on terror: "This economy without markets and their constant flow of information, this strange species so fraught with paradox, did not spring magically into existence after 1917. It was built, on orders from the state, with brutal force and at great cost in human lives" (p. 86). The only way to make this utopia work, as Lenin and his successors realized, was to resort to terror. Fear was implanted into people's minds and replaced normal economic incentives. Not by coincidence did the Soviet economy grow fastest during the period of Stalinist purges and mass terror. "This, then," writes Shane,

was the Brobdingnagian economy Stalin had built on the bones of kulaks and prisoners, an economy subject to state command and control. It was an economy designed not to generate the stream of information necessary for self-regulation but to respond to orders from the regime. It was an economy planned for total control. But especially in the absence of terror, control cannot be total. (p. 90)

Shane is right: when the ailing regime lost its repressive impetus under Gorbachev's perestroika, the "socialist economic mechanism" fell like a house of cards.

A leading attribute of Soviet socialism was state monopoly of information. "The secrecy and censorship, banning and jamming that fenced the Soviet citizenry off from the truth about their own history and the outside world had long been viewed in the Kremlin as a necessary bulwark against subversion" (p. 44). From the start, the Soviet regime rested on a system of belief, not knowledge, a mythology that citizens learned from earliest childhood and that suffused every aspect of life. Shane quotes a grade-school textbook that I remember well from my youth in Russia: "We see how day by day, hour by hour, with enthusiasm, joy and pride the Soviet people are building the radiant edifice of Communism. You, kids, also will build Communist society, and not only build but work under Communism" (p. 55).

In addition to their thrust to impose complete control over people's minds, the central planners shoved toward total control of production and distribution. All traces of competition were eliminated after the early 1930s with the formation of the system of industrial ministries solely responsible for the production of certain groups of commodities. As a result the market-

price system necessary for an efficient economy ceased to exist. It was replaced by bureaucratic “cost accounting” calculations to set prices that were not even theoretically supposed to reflect supply and demand. Efficient allocation of resources became impossible because of the lack of market prices—information that converges in markets as a composite statement of all existing conceptions, beliefs, and valuations concerning the usefulness of scarce resources for all the competing ends for which they could serve as means.

The already-distorted price mechanism was further undermined by the economic “reforms” of the 1960s, which introduced huge subsidies on the one hand and heavy indirect “turnover” taxes incorporated into prices on the other. The absurdity of the system reached grotesque proportions when, during Nikita Khrushchev’s economic reforms, the concept of “profit” was introduced into socialist economizing. Here, however, profit became a planned category, calculated as a percentage of cost. This “high cost/high profit” approach was one of the catalysts for the collapse of the system during the 1980s. Shane writes that the entire attempt to plan the Soviet economy “was as hopeless as if a human being tried consciously to control all the muscles directing his breathing, blood circulation, and digestion, deciding just when to contract his right ventricle and how much insulin should be released by his pancreas” (p. 83).

Following the well-known arguments of F. A. Hayek, Shane argues that central planning collapsed because of its “pretense of knowledge,” that is, its incompatibility with the actual decentralization and specialization of knowledge in society. Answering those who still believe, as Oskar Lange did, that economic calculation can be accomplished successfully by employing computer technology, Shane states, “The microchip is no panacea; utopia, it is worth remembering, literally means ‘no place’” (p. 282).

In this connection, one must recognize the interdependence of political and economic freedom, market prices, decentralization, profit maximization, incentives, and competition. Of course, decentralized entrepreneurs need to face appropriate incentives. So long as industries were monopolized, they did not. The only challengers of the state monopolies were the black marketeers who, Shane believes,

were really economic dissidents. By exercising economic freedom, they were challenging the state’s monopoly on the economy, just as political dissidents who asserted freedom of speech or of the press challenged the state monopoly on ideology. And if they were caught by the state, the moonlighters could be sent to a labor camp just as political dissidents were. (p. 92)

By their nature, bureaucracies stand outside the market process and the price system; they are denied the tools of economic calculation and therefore their economic decisions must be arbitrary. In contrast to the oft-encountered Western theory that private market power leads to the exploitation of one’s market position, it is precisely state-granted monopoly

that leads to exploitation and rent-seeking. Shane quotes Vasily Grossman, a great Russian writer practically unknown in the West, who in his 1963 essay-novel *Forever Flowing* depicts a prisoner returning from the dreadful Gulag. (Gulag is the Russian acronym for the Chief Administration of Corrective Labor Camps, a system of concentration and extermination camps in the Soviet Union established in 1918 after the Bolshevik Revolution.) This prisoner comes to understand the “parallel restraints on mental and physical labor.” “I used to think freedom was freedom of speech, freedom of the press, freedom of conscience. But freedom is the whole life of everyone,” he declares.

Here is what it amounts to: you have to have a right to sow what you wish to, to make shoes or coats, to bake into bread the flour ground from the grain you have sown, and to sell it or not to sell it as you wish; for the lathe operator, the steelworker, and the artist it's a matter of being able to live as you wish and not as they order you to. And in our country there is no freedom—not for those who write books nor for those who sow grain nor for those who make shoes. (p. 92; not unlike laments heard in the United States in the 1990s!)

The decades-long effort to eliminate markets resulted in the destruction of the work ethic, mass misallocation of resources by centralized investment decisions, demolition of the base for private capital accumulation, distorted means of economic calculation, and technology so obsolete that many industrial enterprises possess capital of zero or negative value. Most Russian heavy industrial enterprises were built during Stalin's industrialization program in the 1930s and have not been significantly modernized. After 1917 the central planners disallowed the closure of enterprises, even the most inefficient. The very term *efficiency* became meaningless because of the rejection of the concept of opportunity cost by the official “political economy of socialism.” Thus, a huge part of Russia's industrial capital looks, and is, no more productive than that in an industrial-history museum.

The crisis of socialized agriculture goes back to the 1920s and 1930s, when “Stalin had supplanted the myriad individual decisions that make up a market with a rigid hierarchy and top-down control, effectively locking the peasantry into a new form of slavery” (p. 87). More than 5 million of the most productive peasant households were condemned as “kulaks”—literally ‘fists’—whom Stalin vowed to annihilate because of their resistance to the new collective farms” (p. 88). Agriculture still has not recovered from the collectivization and blanket nationalization of property that turned owners into prison laborers. At the beginning of the century Russia exported wheat, rye, barley, and oats—10.5 million tons of grain annually during the years from 1909 to 1913. Today, Russia is the world's largest importer of grain. Socialism devastated rural culture, producing extreme urban-rural disparities, forced labor, and severe shortages of housing, schools, hospitals, roads,

and other elements of social infrastructure in the countryside. According to recent estimates, more than 40 percent of hospitals in rural Russia do not have running water or modern sewage-disposal systems.

The suppression of economic freedom and individual initiative has led to widespread apathy and the inability of the public to make independent decisions as well as to a complete lack of individual responsibility. Economic decisions were purely political in character. The assumed orientation of these decisions and corresponding propaganda on “the communist civilization of tomorrow,” “world victory of socialism,” “complete satisfaction of societal needs,” “scientific and technological revolution,” and other abstract goals undermined entrepreneurship and initiative and made people helpless in dealing with the Leviathan state. All economic activity in the Soviet Union was subordinated to the fulfillment of communist political ideals “at any price.”

The collapse of socialism came as a surprise only to the fellow travelers of communism in the West and to some “blackboard” Sovietologists who uncritically read too much Kremlin propaganda—disregarded as nonsense by the majority of Soviets themselves. “The characteristic feature of this age of destructive wars and social disintegration is the revolt against economics,” said Ludwig von Mises (*Human Action*, 3d rev. ed. Chicago: Regnery, 1966, p. 9). The revolt inevitably failed. Eventually even many of the advocates of socialism in the West admitted that the economic collapse of the Soviet Union resulted not from the West’s military superiority but from the Soviet government’s rejection of economic reasoning.

No economic analyst can calculate the opportunity cost of the socialist experiment in Russia, but the human toll is estimated by Russian historian Roy Medvedev at 41 million people. They perished in a dreadful Gulag during Stalin’s collectivization and in purges, campaigns against “unearned” incomes, and other devilish experiments. Still, “the only lesson of history is that it does not teach us anything,” says a popular Russian aphorism. Nobel laureate Gary Becker recently observed that “despite the recent collapse of socialism and communism in Soviet Russia and Eastern Europe, socialism is still alive and growing” (President’s Address, Mont Pelerin Society Regional Meeting, Big Sky, Montana, 1991). It remains a mortal danger to economic freedom and the quality of life for us and generations to come. *Dismantling Utopia* is a testimony to how rejection of economic reasoning destroyed a country that could have been among the world’s richest. Shane quotes nineteenth-century Russian philosopher and writer Pyotr Chaadayev’s prophetic augury: “We are exceptional people; we are among those nations that, as it were, are not members of mankind but exist only to give the world some terrible lesson.”

YURI MALTSEV
Carthage College

♦ **Isolationism Reconfigured:
American Foreign Policy for a New Century**

By Eric Nordlinger

Princeton: Princeton University Press, 1995. Pp. x, 335. \$29.95
hardcover.

The Cold War may have ended, but America's Cold War military remains. The United States accounts for 40 percent global military spending, maintains more than 200,000 soldiers in Europe and the Far East, and spends as much, in real terms, as it did in 1980, when there still existed a Soviet Union, Warsaw Pact, and an international communist menace. To what end? Containment no longer applies, but advocates of an oversize military have been creative in developing substitute doctrines.

The only alternative strategy to receive much attention is old-fashioned isolationism, advanced by such figures as Patrick Buchanan and Ross Perot. Their "America First" prescriptions, mixing military nonintervention with protectionism and xenophobia, have been routinely dismissed by Washington's establishment. Indeed, isolationism has become an all-purpose epithet in Washington. Criticize foreign aid, the Agency for International Development, or risky military adventures in Bosnia, Haiti, and Somalia, and you are labeled an isolationist.

It wasn't always this way, explains the late Eric Nordlinger, of Brown University: "there is virtually no disagreement about isolationism's having served the country exceptionally well throughout the nineteenth century" (p. 11). Even up to World War II, a noninterventionist foreign policy remained a viable alternative. Nordlinger argues persuasively that "with the benefits of hindsight the reasonableness to full validity of most of the isolationist arguments can be readily argued" (p. 12).

The victors in America's policy wars have written most of the histories, however, and so thoroughly have they trashed isolationism that virtually no one, whatever his policy proclivities, has voluntarily adopted the label. But Nordlinger accepts the challenge of rehabilitating it.

He begins by defining isolationism, a term often caricatured by its opponents, and goes on to write, "the strategic vision of historical and contemporary isolationism is one of quiet strength and national autonomy" (p. 5). The United States need not go abroad to ensure its security. On the contrary, doing so is counterproductive because "[t]he United States is strategically immune in being insulated, invulnerable, impermeable, and impervious and thus has few security reasons to become engaged politically and militarily" (p. 6).

There are two varieties of modern isolationists, he suggests—nationalist conservatives wanting a return to normalcy, and libertarians desiring smaller government. Their similarities greatly overshadow their differences. Along the way, he distinguishes what isolationism is not. It is not appeasement—

after all, “it was Britain and France, not a disengaged America, that pressured Czechoslovakia to concede much of its territory to Hitler at Munich” (p. 5). Nor does it necessarily involve economic protectionism, though some isolationists, as well as avowed internationalists, have backed protectionist measures.

Equally important, noninterventionism is not synonymous with a dovish foreign policy. Engagement can be either adversarial or conciliatory, both of which “derive first and foremost from the common assumption of America’s vulnerability” (p. 34). Whether one is a dove or hawk depends on one’s assessment of the intentions of adversaries. Nonintervention, in contrast, is equidistant from both. In practice, its prescriptions may seem more dovish, but the underlying philosophies of the policies remain far different.

Nordlinger next develops the components of what he calls “a national strategy” (p. 39). “First and foremost, its minimal political-military activism translates into an exceptionally narrow security perimeter, the narrowest one that can provide for the nation’s security” (p. 39–40). In general, threats against this core interest are defended against; activities outside of it are ignored. “There are no allies and clients to be defended, no threats of extended deterrence, interventions, negotiated settlements, military and economic assistance programs, and only a few arms control treaties” (p. 40).

Obviously what constitutes America’s appropriate core interest is a legitimate matter of debate. Many past noninterventionists, even early in the Republic’s history, considered all of Latin America to be part of America’s security zone. Nordlinger advocates a narrower definition: the North American land mass, U.S. movement in international waters, and transit of non-U.S. shipping to and from America. Still, the differences between noninterventionists pale in comparison to those between noninterventionists and both doves and hawks who see U.S. security at stake almost everywhere on the globe.

Having set out what he believes to be the nation’s fundamental security interest, Nordlinger goes on to “delineate its doctrinal rationale”: that “America’s security is maximized by a minimal activism around the narrow core” (p. 41) and that the United States “enjoys a privileged position in being strategically immune within the narrow security perimeter” (p. 41). Potential threats exist, of course, but are not likely to prevail. Outside of this perimeter, even hegemonic challengers are not likely to be successful or, if successful, are not likely to seriously threaten American security.

The bulk of *Reconfiguring Isolationism* is devoted to expanding this argument. Nordlinger divides his “comprehensive immunity concept” into its constituent parts: “insulation, invulnerability, impermeability, and imperviousness” (p. 41).

Each point is well argued, backed by historical detail and serious analysis. First, he says, the United States is relatively insulated from events abroad. America enjoys “buffers and barriers, deflecting and negating each of the expansionist means at the rival’s disposal” (p. 65). Recent history

supports Nordlinger's analysis. For instance, early Soviet successes in the Third World proved to be ephemeral. Extensive military aid and intervention by Moscow led to few permanent gains; moreover, smaller nations, rather than joining the communist bandwagon, chose to balance against it. Eventually the economically enfeebled Soviet Union cut aid to its client states. Similarly, the fear of the possible "Finlandization" of Europe was always counterfactual. "A vision of Finlandization in America's absence runs up squarely against the European states' long-standing communist antipathies and wariness of Moscow's peaceful wiles, valued national traditions and strong democratic institutions, as well as their size and economic wherewithal" (p. 72).

He argues similarly that America is relatively invulnerable economically and militarily. Washington long exhibited "geostrategic indiscriminateness" in calling virtually every nation overseas vital to the national interest (p. 78). However, most of these claims were meaningless. Vulnerable in wartime and of little advantage in full-scale conflict, even Soviet bases in the Caribbean, he argues, would have been potential liabilities for America's adversary. America's military forces are also both impermeable and impervious—that is, incapable of being surpassed by those of its enemy and unlikely to be overwhelmed even if the adversary's forces were bigger and/or better. He concludes: "The qualitative strategic advantages that the Soviets almost certainly could not have achieved are barely imaginable in effective conventional forces" (p. 89).

Reconfiguring Isolationism contains many more solid arguments. For instance, Nordlinger contends that the difficulty in responding to the perceived intentions of one's opponents should bias the nation toward a more isolationist policy, for "activist policies premised upon mistaken understanding of the other side's intentions regularly eventuate in security deflations" (p. 93). Guaranteeing the nation's core security interests, in contrast, is not so dependent on accurately assessing intentions.

Nordlinger also dismisses one of the favorite arguments today on behalf of international activism: maintaining U.S. credibility. Only international activism makes credibility important. In contrast,

a nonengaged America, relieved of the heavy demands of extended deterrence, would have had little reason to worry about its credibility once the security perimeter was defined in terms of our highest intrinsic values. Some forty years of global containment in protecting secondary and tertiary material interests so as to enhance the credibility behind the protection of our central and core interests were thus unjustified, less than efficacious, the grand design and its enormous security sacrifices largely, if not entirely, superfluous. (p. 117)

Nothing in the European experience before World War II suggests otherwise, he convincingly argues.

Although Nordlinger emphasizes the defense of America's core security interests, he is not disinterested in idealism. Indeed, past isolationists were not "ethically unawares, insensitive, or jaundiced" (p. 192). Rather, they believed nonengagement was a better means of promoting their ideals. And given America's record—financial and military support for a variety of international thugs and thieves—international activism is by no means a sure method of promoting the "liberal project," as he puts it (p. 183). Much of the controversy is about means rather than goals, and in a number of ways, contends Nordlinger, isolationism, or a more complicated "concurrent foreign policy," which relies on leadership other than military involvement, is a more effective means (p. 205). In such a case, the United States would be a better international model. He also believes, probably with less justification, that nonengagement would further "U.S. moral leadership within the United Nations" (p. 207). America could also rely on other alternatives, such as economic sanctions.

With the end of the Cold War and serious security threats against the United States, a debate over foreign policy is long overdue. It is extremely unfortunate, then, that Eric Nordlinger is not alive to take part in it. For *Isolationism Reconfigured* offers a blueprint for a new approach, "an American foreign policy" (p. 263).

And one is badly needed. Americans like the image of standing tall, Nordlinger notes, but he also admonishes:

There are, however, two ways of doing so. One posture involves standing up to rivals, standing upon the foundations of an enormous military buildup, and standing on the beaches of a minuscule, barely defended Grenada in a mood of national self-congratulation. The alternative posture is one of standing upright in conceiving and pursuing an independent foreign policy—in not permitting others to define what is and is not in our interest, what is and is not a setback; purposefully refusing to become caught up in the great efforts and minutiae of appearing strong in the eyes of others; focusing upon central interests rather than transforming peripheral matters into tests of resolve that must invariably be passed; saying no when implored by others to serve nominally common interests instead of making overt bids for predominance that are often resisted and rejected; not allowing the promotion of liberal ideals to be set aside and disfigured by highly inflated security needs and sensitivities; pressing and pressuring on behalf of free and fair trade instead of being self-deterred by concerns for alliance unity. (p. 278)

It is a message that citizens and policymakers alike should heed.

DOUG BANDOW

Cato Institute

Etceteras . . .

AMBROSE BIERCE, an American author popular in the late nineteenth century, is best remembered nowadays for his hilarious, biting cynicism in *Devil's Dictionary*, which contained such gems as: "POLITICS, A strife of interests masquerading as a contest of principles"; "LITIGATION, A machine which you go into as a pig and come out of as a sausage"; and "CABBAGE, A familiar kitchen vegetable about as large and wise as a man's head."

Bierce deserves credit for anticipating many modern ideas now embedded in public-choice theory and expressing them more colorfully than, say, the typical author in *Public Choice*. Here, for example, is his version of majority rule and rational ignorance:

Majorities, embracing as they do the most ignorant, seldom think rightly. Public opinion being the opinion of mediocrity is commonly a mistake and a mischief. The result is that public writer and public speaker alike find their account in confirming the masses in their brainless errors and brutish prejudices—in glutting their omnivorous vanity and in inflaming their implacable race and national hatreds.

Bierce never doubted that representative democracy is a sham. His view of the political process resembled that of Thomas Ferguson, whose *Golden Rule: The Investment Theory of Party Competition and the Logic of Money-Driven Political Systems* is reviewed above by Michael Munger. In Bierce's words:

You can effect a change of robbers every four years. Inestimable privilege to pull off the glutted leech and attach the lean one! And you cannot even choose among the lean leeches, but must accept those designated by the programmers and showmen who have the reptiles on tap.

Small wonder that his *Dictionary* defined IDIOT as "a member of a large and powerful tribe whose influence in human affairs has always been dominant and controlling" and CAPITAL as "the seat of misgovernment."

Readers who would like to know more about the life and ideas of this fascinating, clear-eyed, and profoundly unhappy man can consult Roy Morris, Jr., *Ambrose Bierce: Alone in Bad Company* (New York: Crown Publishers, 1995), in which the quotations above appear on pp. 163, 182–83, 200–1.

ROBERT HIGGS



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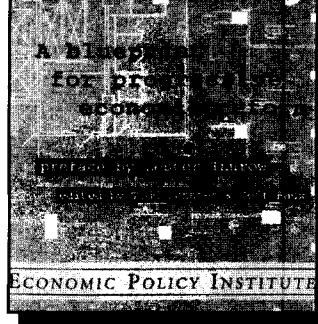
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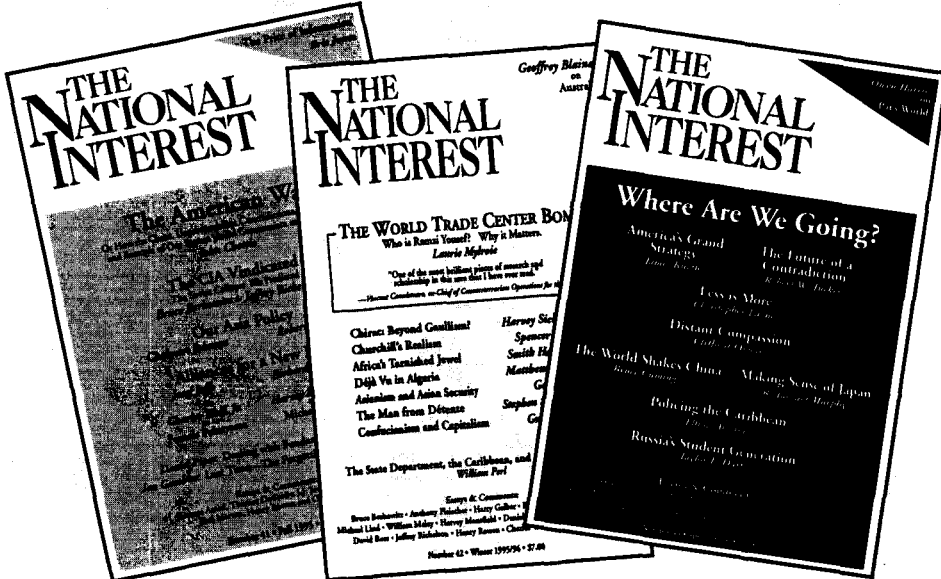
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